



Income Tax Law and Accounts

SYLLABUS

UNIT-I

Evolution of Taxation System in India : Introduction, Important Definitions : Assessee, Person, Income, Total Income Assessment Year & Previous Year. Agricultural Income & its assessment. Residence & Tax Liability (Basis of Charge). Capital & Revenue. Exempted Incomes.

UNIT-II

Income from Salaries, Income from House Property. Profits and Gains of Business and Profession, Depreciation.

UNIT-III

Capital gains, Income from Other Sources, Deductions From Gross Total Income, Computation of Tax Liability of an Individual.

UNIT-IV

Set off and carry forward of losses and Clubbing of Income, Procedure of Assessment, Advance Payment of Tax and Deduction of Tax at Source. Basics of filing of Returns : Types of ITR, Form 16 & Form 26AS.

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UNIT-I

Evolution of Taxation System in India

SECTION-A (VERY SHORT ANSWER TYPE) QUESTIONS

Q.1. What do you mean by the term 'assessee'?

Ans. An assessee means a person :

- (i) who is liable to pay any tax; or
- (ii) who is liable to pay any other sum of money under this Act (*e.g.*, interest, penalty, etc.); or
- (iii) in respect of whom any proceeding under this Act has been taken for the assessment of his income or assessment of fringe benefits; or
- (iv) in respect of whom any proceeding under this Act has been taken for the assessment of the income of any other person in respect of which he is assessable; or
- (v) in respect of whom any proceeding under this Act has been taken for the assessment of the loss sustained by him or by such other person; or
- (vi) in respect of whom any proceeding under this Act has been taken for the amount of refund due to him or to such other person; or
- (vii) who is deemed to be an assessee under any provision of this Act; or
- (viii) who is deemed to be an assessee in default under any provision of this Act.

Q.2. What do you mean by deemed assessee?

Ans. A person who is deemed to be an assessee for some other person is called 'Deemed Assessee'. *For example*, (i) after the death of a person, his legal representative will be treated as an assessee for that income of the deceased on which tax has not been paid by the deceased before his death; (ii) a person representing a foreigner or a minor or a lunatic is treated as an assessee for the income of such foreigner or minor or lunatic.

Q.3. Discuss the term 'assessee in default'.

Ans. When a person is responsible for doing any work under the Act and he fails to do it, he is called an 'Assessee in Default'. *For example*, if a person while making any payment to another person, is liable to deduct income tax thereon at source, does not deduct income tax therefrom, or having deducted, does not deposit it in the Government Treasury, he will be treated as an assessee in default for that income tax.

Q.4. Discuss the term 'assessment year'.

Ans. An assessment period may be described as the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year. An assessee is liable to pay tax on the income of the previous year during the following financial year (the assessment year).

Q.5. What do you mean by the term 'liable to tax'?

Ans. "Liable to tax," in relation to a person and with reference to a country, means that there is an income tax liability on such person under the law of that country for the time being in force and shall include a person who has subsequently been exempted from such liability under the law of that country.

Q.6. What is meant by the term 'company'?

Ans. A company may be defined as an artificial person created by law with perpetual succession, a common seal and shares carrying limited liability.

As per section 2(17) of the Income Tax Act, a company means :

- (i) any Indian company, or
- (ii) any body corporate incorporated under the law of a foreign country, or
- (iii) any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

Q.7. 1. Shri Arnav was appointed on 1.7.2020 as a lecturer in a college on probation. He was confirmed on 30.6.2021.

2. Shri Dev was appointed on 1.9.2020 as a lecturer against leave vacancy of Shri Ram Nath. Shri Ram Nath joined the college on 1.2.2021.

3. M/s Ram Lal Bhajan Lal maintain the books of account of their business on the calendar year basis. They prepared their final accounts in 31.12.2020.

Under the above mentioned cases what would be the duration of the previous year for the Assessment Year 2021-22?

Ans. 1. The previous year for Shri Arnav shall be from 1.7.2020 to 31.3.2021.

2. The previous year for Shri Dev shall be from 1.9.2020 to 31.2.2021.

3. The previous year for M/s Ram Lal Bhajan Lal shall be from 1.4.2020 to 31.3.2021. They are required to make up their accounts up to 31.3.2021 for the purpose of submitting the return of income.

Q.8. Differentiate between the previous year and assessment year.

Ans. Following points highlight the difference between previous year and assessment year :

S.No.	Previous Year	Assessment Year
1.	Previous Year means the financial year immediately preceding the assessment year.	Assessment Year means the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year.
2.	Previous Year may be less than 12 months in case of newly set-up business or profession.	Assessment Year will always for a period of 12 months.
3.	The year in which income a earned is known as the Previous Year.	The next year in which the previous year's income become taxable is known as the Assessment Year.

Q.9. What is meant by maximum marginal rate?

Ans. It means the rate of income tax (including a surcharge on income tax, if any) applicable in relation to the highest slab of income in the case of an individual, Association of Persons or Body of Individuals as specified in the Finance Act of the relevant year.

Q.10. State with reasons whether the following are agricultural income :

- (i) Income from the sale of replanted trees where the denuded parts of the forest are replanted and subsequent operations in forestry are carried out.**
- (ii) Income from the sale of trees of forest which are of spontaneous growth and in relation to which forestry operations alone are performed.**

Ans. (i) It is agricultural income as these trees are of spontaneous growth but have been replanted and subsequent operations in forestry were carried out.

- (ii) It is not an agricultural income as it is derived from the sale of trees of spontaneous growth. Here there are no basic operations like tilling of the soil, sowing and planting. The subsequent operations for conservation and improvement of such trees do not constitute agricultural activities.

Q.11. Johnson an American citizen, was appointed a senior scientific officer in India on 1st April, 2010. On 31st January, 2018 he went to Uganda on deputation for a period of 3 years, but left this wife and children in India. On 1st May, 2019 he came to India and took with him his family to Uganda on 30th June, 2019. He returned to India and joined his original job on 2nd February, 2021.

What would be the residential status of Johnson for income tax purposes for the Assessment Year 2021-22?

Ans. During the previous year 2020-21, he did not fulfil any of the two basic conditions, as he was neither in India for at least 182 days nor was in India for at least 60 days during the previous year. Hence, he will be non-resident for this assessment year.

Q.12. Shri Subhash, an Indian citizen was born in U.K. He came to India, when he was of 12 years age and went outside India for the first time when he was 25 years of age. He left for the U.K. in May 2018 and again come back to India in March 2021.

What is his residential status for the Assessment Year 2021-22?

Ans. Shri Subhash came to India in March 2021. Neither he was in India for at least 182 days nor 60 days during the previous year. Hence, he is non-resident in India for the Assessment Year 2021-22.

SECTION-B SHORT ANSWER TYPE QUESTIONS

Q.1. Discuss the term 'Income Tax'.

Ans. Meaning of Income Tax

Income tax is an important direct tax. It is a prominent and most significant source of revenue of the government. The government needs money to maintain law and order in the country, safeguard the security of the country from foreign powers and promote the welfare of the people. Since our government is wedded to the socialistic pattern of society it is the foremost duty of the government to bring out such welfare and development programmes which will bridge the gap between the rich and the poor. All this requires mobilisation of funds from various sources. These sources may be direct or indirect. Income tax, being a direct tax is an important tool to achieve balanced socio-economic growth by providing concessions and incentives in income tax for various developmental purposes.

Every person, whose taxable income for the previous financial year exceeds the minimum taxable limit is liable to pay income tax during the current financial year on the income of the previous financial year at the rates applicable during the current financial year.

Q.2. Discuss the evolution of taxation system in India.

Ans. Evolution of Taxation System in India

1. In India, income tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the government on account of the Military Mutiny of 1857.
2. In 1886, a separate Income Tax Act was passed. This act remained in force up to 1917, with various amendments from time to time.
3. In 1918, a new Income Tax Act was passed and again it was replaced by another new act which was passed in 1922. This act remained in force up to the assessment year 1961-62 with numerous amendments.
4. The Income Tax Act of 1922 had become very complicated on account of innumerable amendments. The government of India, therefore, referred it to the Law Commission in 1956 with a view to simplifying and for the prevention of tax evasion. The Law commission submitted its report in September 1958, but in the meantime, the government of India had appointed the Direct Taxes Administration Enquiry Committee to suggest measures to minimise inconveniences to assesseees and to prevent evasion of tax. This committee submitted its report in 1959. In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed.
5. The Income Tax Act, 1961 has been brought into force with effect from 1st April, 1962. It applies to the whole of India and Sikkim (including Jammu and Kashmir).
6. Since 1962 several amendments of far-reaching nature have been made in the Income Tax Act by the Finance Act every year.
7. Besides this, amendments have also been made by various amendment acts, for instance, Taxation Laws Amendments Act, 1984, Direct Taxes Amendment Act, 1987, Direct Taxes Law (Amendment) Acts of 1988 and 1989, Direct Tax Law (Second Amendment) Act, 1989 and at last The Taxation Law (Amendment) Act, 1991. The amendments in the Finance Acts, 1992 and 1993, are mostly based on the recommendations of Chelliah Committee Report.
8. As a matter of fact, the Income Tax Act, 1961, which came into force on 1st April, 1962, has been amended and re-amended widely. It has, therefore, become very complicated both for the administrating authorities and the tax-payers.

Q.3. Discuss the major features of income tax.

Ans. Features of Income Tax

Following are the major features of income tax :

1. **Direct Tax** : Income is a Direct Tax. Direct Tax means such tax which is paid by a person who bears the tax burden.
2. **Central Tax** : Income Tax is imposed and recovered by the Central Government.
3. **Tax on Total Income** : Income Tax is calculated on total income. Total income is also called taxable income. Total income is calculated according to the provisions of the Income Tax Act.
4. **Tax-Exempted Limit** : If income exceeds tax-exempt limits of income, then tax is imposed. Tax-exempt limit of income for the Assessment Year 2021-22, are as follows :
 - (i) **Senior Citizen** : Senior citizen (resident in India), who is the age of 60 years or more but less than 80 years ₹ 3,00,000.

- (ii) **Super Senior Citizen** : Super senior citizen (resident in India), who is of the age of 80 years or more ₹ 5,00,000.
 - (iii) Other Individuals, HUF, Association of Persons and Body of Individuals ₹ 2,50,000.
 - (iv) Firm, Company, Local Body : Nil.
5. **Progressive Tax Rates** : Tax is not imposed at the same rate on the total income of an individual, HUF, AOP or BOI. Tax rates increase with an increase in income. Minimum tax rate is 5% and maximum tax rate is 30%. Firms' incomes are taxed at the rate of 30% and companies incomes are taxed at the rate of 15% or 22% or 25% or 30% (which is applicable).
6. **Surcharge** : Surcharge is imposed on the amount of income tax. Surcharge rates are as follows for the Assessment Year 2021-22.
- (i) **For individuals, HUF, AOP or BOI** : (a) @ 10% of total income exceeds 50 lakh rupees but does not exceed 1 crore rupees. (b) @ 15% if total income exceeds 1 crore rupees but does not exceed 2 crore rupees; (c) @ 25% if total income exceeds 2 crore rupees but does not exceed 5 crore rupees; and (d) @ 37% if total income exceeds 5 crore rupees.
 - (ii) **For Firms** : @ 12% if total income exceeds 1 crore rupees.
 - (iii) **For Domestic Company** : @ 7% if total income exceeds 1 crore rupees but does not exceed 10 crore rupees. @ 12% if total income exceeds 10 crore rupees.
- Note** : In above all three condition, provision of marginal relief will also be applicable.
7. **Health and Education Cess** : All assesseees are liable to pay health and education cess @ 4% on the total amount of income tax including surcharge.
8. **Tax Burden** : Tax is imposed at a progressive rate on the income of individual and HUF therefore rich person bear more tax burden.

Q.4. Explain the basis of charging income tax.

Ans.

Basis of Charging Income Tax

The following basic principles are the basis of charging income tax :

1. Income tax is an annual tax on income.
2. Income of the previous year is taxable in the next following assessment year at the rate or rates applicable to that assessment year. However, there are certain exceptions to this rule.
3. Tax rates are fixed by the annual Finance Act.
4. Tax is charged on every person as defined in section 2(31).
5. The tax is charged on the total income of every person computed in accordance with the provisions of this Act.
6. Income tax is to be deducted at the sources of income or paid in advance as provided under provisions of the Act.

The total income is computed on the basis of the residential status of the assessee. The income is classified into the following five heads :

1. Income from salaries;
2. Income from house property;

3. Profits and gains of business or profession;
4. Capital gains; and
5. Income from other sources.

Q.5. Discuss the procedure followed for computing the total income of an assessee and the tax payable by him.

Ans. Procedure of Computing Total Income

For computing the total income of an assessee and the tax payable by him, following procedure is followed :

1. Classify the income under each of the above five heads and then deduct from the income under each head the deductions permissible under the Act in respect of that head of income. The balance of amount left under each head of income is its assessable income.
2. Total of the assessable income of each head or the aggregate of all these assessable incomes is called the Gross Total Income.
3. From the Gross Total Income, thus arrived at, deduct the deductions permissible under sections 80C to 80U of the act for computing the total income. The balance left under subtracting the allowable deductions is called the Total Income.
4. The amount of income tax payable is then calculated on this total income according to the rates prescribed by the Finance Act for the relevant assessment year and the rates prescribed under different sections of the Act.

Q.6. Discuss the terms gross total income and total income. Also differentiate between them.

Ans. Meaning of Gross Total Income and Total Income

Gross Total Income : The aggregate of the income under the following heads is known as gross total income :

- (i) Income from salaries;
- (ii) Income from house property;
- (iii) Profit and gains of business or profession;
- (iv) Capital gains; and
- (v) Income from other sources.

The income under each head is computed after making deductions permissible under that head. Further, the brought forward losses shall be deducted (as provided in the Act) to arrive at the assessable income.

Total Income : It means the amount left after making the deductions under sections 80C to 80U from the gross total income.

The amount so arrived is rounded off to the nearest multiple of ten rupees.

Difference between Gross Total Income and Total Income

S.No.	Gross Total Income	Total Income
1.	Aggregate of various heads of income is called Gross Total Income.	After deducting under sections 80C to 80U, the balance is called Total Income.
2.	Gross Total Income is not rounded off.	Total Income is rounded off to the nearest multiple of ten rupees.

3.	Tax is not levied on Gross Total Income.	Tax is levied on the Total Income at the prescribed rates.
4.	Gross Total Income cannot be less than Total Income.	Total Income can be equal to GTI or less than GTI.
5.	Agricultural income is not included in GTI.	If agricultural income exceeds ₹ 5,000, it is included in the Total Income of an individual or HUF to determine the tax payable by the assessee.

Q.7. What is meant by casual income?

Ans. Meaning of Casual Income

Any receipt which is of a casual and non-recurring nature is casual income. In other words, casual income is that income the receipt of which is accidental and without any stipulation. It is in nature of an unexpected wind-fail.

Winnings from lotteries, crossword puzzles, card games and other games of any sort or from gambling or betting of any form or nature whatsoever are casual incomes. Receipts even from habitual betting are non-recurring receipts and assessable as casual income.

The casual income does not include :

- (i) (a) capital gains; or
(b) receipts arising from business or the exercise of a profession or occupation; or
(c) receipts, by way of addition to remuneration of an employee, such as bonus, gratuity, perquisites, etc.
- (ii) Voluntary payment received in exercise of occupation are not treated as casual income, *e.g.*, tips given in an ordinary way to taxi-drivers in the employ of taxi-owners are income arising from the exercise of an occupation. Similarly, gratuities to waiters in a hotel are taxable. A receipt may be taxable as income arising from the legal exercise of the profession even if the amount is received as gift from the third party to whom the legal services were not rendered and who was under to obligation to pay anything at all.
If an architect submitted a plan in a competition for the construction of a building, the prize won by him, is income from profession.
- (iii) A gift from a relative is not income at all. Birthday and wedding gifts are the simplest instances in point. A gift from a relative does not become income merely because it is repeated year after year. A regular allowance is given year after year purely as a voluntary gift by a parent to a child or by a husband to his wife, or by one relation to another, is merely a fresh gift every time it is paid and does not amount to income.
- (iv) Payment by the husband to his wife under an agreement to live apart as maintenance allowance is neither casual income nor a personal gift. Hence, it is taxable.

Q.8. Discuss the term 'previous year'.

Ans. Meaning of Previous Year

The year in which income is earned is known as the previous year and the next year in which this income is taxable is known as the assessment year. Income tax is charged on the total income of the previous year at the rates prescribed by the relevant Finance Act for the assessment year :

1. Generally, the previous year means the financial year immediately preceding the assessment year. The Financial Year begins on 1st April and ends on 31st March.
2. The financial year (year ending on 31st March) will be uniform for the previous year for all the assesseees and for all sources of income.
3. In the case of a newly set-up business or profession or any other new sources of income during the financial year, the previous year will begin from the date of setting up of the new business or profession or from the date of coming into existence of the new source of income and will end with the said financial year. In this case, the first previous year may be of less than 12 months.

In other words, the financial year is both the previous year as well as assessment year. It is the previous year for the income earned during that financial year and the assessment year for the income earned during the preceding financial year, *e.g.*, the Financial Year 2021-22 is the previous year for current income and is the assessment year for the income earned during the Financial Year 2020-21.

Q.9. The total income of Mr. Dev for the Assessment Year 2021-22 is ₹10,60,000. Mr. Dev got the appointment letter from a foreign country. He will leave India on 20th Sept., 2021. His estimated income from 1.4.2021 to 20th Sept., 2021 is ₹6,60,000. How much tax he has to pay before leaving India?

Sol. Mr. Dev has to pay tax on his income as under during the Financial Year 2021-22 :

(i) Tax on ₹10,60,000 *i.e.*, total income for the Assessment Year 2021-22 :

	₹
Tax on ₹ 2,50,000	Nil
Tax on ₹ 2,50,000 @ 5%	12,500
Tax on ₹ 5,00,000 @ 20%	1,00,000
Tax on ₹ 60,000 @ 30%	18,000
	1,30,500
<i>Add</i> : Health and Education Cess @ 4%	5,220
	1,35,720

(ii) Tax on ₹ 6,60,000 (Income up to the date of leaving India) at the rates prescribed for payment of advance tax during the Financial Year 2021-22 :

	₹
Tax on ₹ 2,50,000	Nil
Tax on ₹ 2,50,000 @ 5%	12,500
Tax on ₹ 1,60,000 @ 20%	32,000
	44,500
<i>Add</i> : Health and Education Cess @ 4%	1,780
	46,280

Note : The tax is payable in the same year (2021-22) in which the income is earned (2021-22).

Q.10. What is meant by Permanent Account Number (PAN)?**Ans. Meaning of Permanent Account Number**

PAN means a number which the Assessing Officer may allot to any person for the purpose of identification.

PAN has ten alphanumeric characters.

Application for PAN : If an assessee has not been allotted a Permanent Account Number he must apply for it in Form No. 49A within the prescribed time. The Assessing Officer has also got power to allot to any other person a Permanent Account Number if tax is payable by such person.

Quoting PAN : Once a Permanent Account Number has been allotted, such number must be quoted in all Returns, correspondence with Income Tax Authorities, challans for payment and in all documents prescribed by the Board.

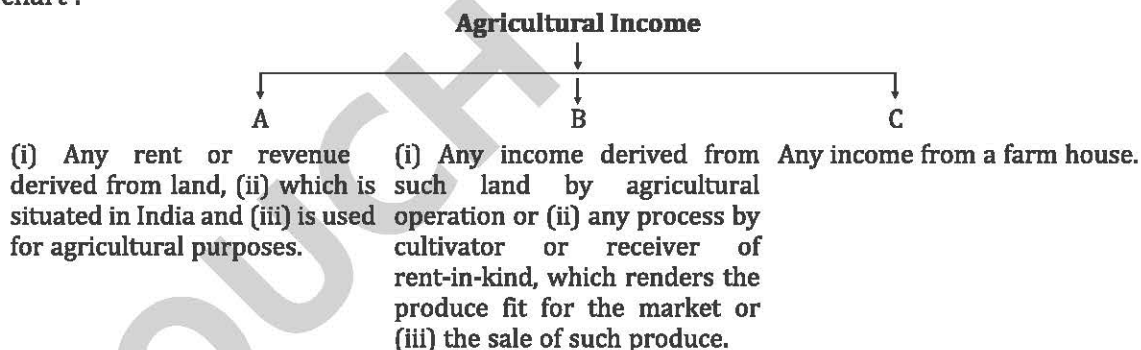
It helps in linking the aforesaid documents to his assessment records to facilitate quick disposal of his assessment and refund claim.

The assessee must intimate to the Assessing Officer about any change in the address, name or nature of business carried on by him.

Now an assessee may use his Aadhaar number in lieu of PAN.

Q.11. Discuss the term 'agricultural income' as per Income Tax Act.**Ans. Meaning of Agricultural Income**

The meaning of the term agricultural income can be explained with the help of the following chart :



Note : Capital Gains arising from the transfer of urban agricultural land shall not be treated as agricultural income.

If the following conditions are satisfied the income from land is treated as agricultural income :

1. The land must be situated in India. If the land is situated outside India, the income from such land will not be treated as agricultural income.
2. Land must be used for agricultural purposes. It means, tilling of the land, watering it, sowing of the seeds, planting and similar operations on the land must be carried out by the assessee.
3. The receiver of income from the land must have an interest in the land. The landlord or tenant or usufructuary mortgage of the land has an interest in the land.

If a person purchases a standing crop and after cutting it, sells it and makes a profit, such profit is not agricultural income.

4. The direct income from agriculture is treated as agricultural income. An indirect income from agriculture is not agricultural income. *For example*, the salary of a farm manager or dividend from a company engaged in agricultural activities is not agricultural income.

Q.12. Discuss the major points regarding computation of agriculture income.

Ans. Major Points Regarding Computation of Agricultural Income

Following are the main points regarding computation of agricultural income :

1. Agricultural Income by way of rent or revenue derived from land which is situated in India and is used for agricultural purpose is computed as if it were income chargeable to income tax under the head 'Income from Other Sources'.
2. Agricultural Income from agricultural building is computed as if it were income chargeable to income tax under the head 'Income from House Property'.
3. Any other agricultural income is computed as if it were income chargeable to income tax under the head 'Profits and Gains of Business or Profession'.
Note : If payment exceeding ₹10,000 has been made under (1) or (3) without account payee cheque or account payee bank draft or use of electronic clearing system through a bank account, even than the whole amount shall be allowed as a deduction.
4. Any sum payable by the assessee on account of any tax levied by the State Government on the agricultural income shall be deducted in computing the agricultural income.
5. Where in respect of any source of agricultural income there is a loss, such loss shall be set-off against any other source of agricultural income.
6. Where the assessee is a member of an Association of Persons or Body of Individuals and his share in the agricultural income of the association or body is a loss, such loss shall not be set-off against any other agricultural income of the assessee.
7. If there is loss from agriculture, it can be carried forward and set-off against agricultural income in the following eight years provided the return of income has been filed and such loss has been determined by the Assessing Officer.

Q.13. What are non-agricultural incomes from land?

Ans. Non-Agricultural Incomes from Land

The following incomes are not derived from land used for agricultural purposes, hence they are non-agricultural incomes :

1. Income from markets;
2. Income from stone quarries;
3. Income from mining royalties;
4. Income from land used for storing agricultural produce;
5. Income from the supply of water for irrigation purposes (*e.g.*, income from the supply of water for irrigation from a tube-well or well, as it does not involve any agricultural operation);
6. Income from self-grown grass, trees or bamboos;
7. Income from fisheries;
8. Income from the sale of the earth for brick-making;
9. Remuneration received as manager of an agricultural farm;
10. Dividend from a company engaged in agriculture;

11. Income of the buyer of a ripe crop;
12. Income from dairy farming, poultry farming, etc.; and
13. Income from interest on arrears of rent of agricultural land.

Q.14. From the following information compute Net Agricultural Income :

	₹
(1) Income from Grain business (including the amount received ₹ 38,000 from wheat produced at own agricultural land)	1,87,500
(2) Lease rent received from land given to tenants for agricultural operations	18,000
(3) Sale of agricultural produce	48,000
(4) Payment of Govt. Land Revenue on Agricultural Land	6,000
(5) Expenses on power, irrigation and farm labour	10,600
(6) Purchase of seeds, fertilisers and pesticides	7,500
(7) Tractor hire charges (for agricultural operations)	2,500

Sol. Computation of Net Agricultural Income
(for the Assessment Year 2021-22)

	₹	₹
Sale of own crop	38,000	
Lease rent	18,000	
Sale of agricultural produce	<u>48,000</u>	1,04,000
Less : Expenses :		
Land revenue	6,000	
Power, irrigation and farm labour	10,600	
Seeds, fertilisers and pesticides	7,500	
Tractor hire charges	<u>2,500</u>	<u>26,600</u>
	Net Agricultural Income	<u>77,400</u>

Q.15. Subhash and Sons Sugar factory crushed 41,000 quintals of sugarcane during the previous year of which 6,000 quintal of cane was produced on its own farm at a cost of ₹13,20,000. The remaining sugarcane was purchased from the market at the following rates :

- 20,000 quintal @ ₹279 per quintal
- 5,000 quintal @ ₹282 per quintal
- 10,000 quintal @ ₹288 per quintal

During the previous year, the factory earned a total profit of ₹5,00,000. You are required to determine separately the agricultural and non-agricultural income.

Sol. Cost of Sugarcane purchased from the market : Cost

	₹
20,000 quintal @ ₹ 279 per quintal	55,80,000
5,000 quintal @ ₹ 282 per quintal	14,10,000
10,000 quintal @ ₹ 288 per quintal	<u>28,80,000</u>
	<u>98,70,000</u>

$$\text{Average Market Price} = \frac{\text{₹ } 98,70,000}{35,000} = \text{₹ } 282$$

Market value of cane produced on own farm :	₹
(6,000 × 282)	16,92,000
Less : Cost of cane grown on own farm	13,20,000
	Agricultural Income <u>3,72,000</u>
Total Profit	5,00,000
Less : Agricultural Income	3,72,000
	Non-Agricultural Income <u>1,28,000</u>
Hence, Agricultural Income and Non-Agricultural Income	3,72,000 1,28,000

Q.16. Compute tax liability of Mr. Arnav who has an agricultural income of ₹ 80,000 and non-agricultural income of ₹ 8,00,000.

Sol. Computation of Tax Liability
(for the Assessment Year 2021-23)

	₹
Non-agricultural Income	8,00,000
Agricultural Income	80,000
	Aggregate Income <u>8,80,000</u>
Tax on ₹ 2,50,000	Nil
Tax on Next ₹ 2,50,000 @ 5%	12,500
Tax on Balance ₹ 3,80,000 @ 20%	76,000
	88,500
Less : Tax on ₹ 2,50,000 + 80,000 = ₹ 3,30,000	4,000
	84,500
Add : Health and Education Cess @ 4%	3,380
	Tax Liability <u>87,880</u>

Q.17. Discuss the terms 'deemed to be resident'.

Ans. Deemed to be Resident

An Indian citizen, who is not liable to pay tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature, shall be deemed to be resident in India. The condition for deemed residential status applies only if the total income (other than income from foreign sources) exceeds ₹ 15 lakhs during the previous year (*w.e.f.* Assessment Year 2021-22).

Additional Conditions : In fact, in order that an individual may become ordinarily resident in India, he has to satisfy both the following conditions besides satisfying any one of the above mentioned basic conditions :

- (i) he has been resident in India in at least two out of the ten previous years preceding the relevant previous year, and
- (ii) he has been in India for at least 730 days in all during the seven previous years preceding the relevant previous year.

In condition (i) residence of two years out of ten years preceding the previous year means that the assessee must have satisfied at least one of the basic conditions for two years out of ten years preceding the previous year. In condition (ii) the assessee must be physically present in India for at least 730 days during the seven previous years preceding the relevant previous year.

Q.18. Explain about the residency of Hindu Undivided Family, firm or association of persons.

Ans. Residency of HUF, Firm or Association of Persons

1. Resident

A Hindu Undivided Family, firm or Association of Persons are resident in India in any previous year if the control and management of its affairs is situated wholly or partly in India during the relevant previous year, *i.e.*, even if a part of their control and management is situated in India during the previous year, they will be called resident in India. A resident H.U.F. will be ordinarily resident only when its Karta satisfies both the additional conditions of ordinarily resident as an individual.

In this context, the clause 'control and management' need clarification. The expression, 'control and management of affairs' means *de facto* and not merely the right to control and manage. The place of control and management is the place where the head and seat and directing power are situated. It is not necessary that the control and management must be situated at the place where the business or profession is being carried on. The place of business can be different from the place of its control and management. The control and management of affairs must be situated *wholly* outside India in order to make them non-resident.

2. Not-Ordinarily Resident

Firm and Association of persons cannot be 'not-ordinarily resident'.

A Hindu Undivided Family is 'not-ordinarily resident' in India, if its *Karta* or manager *does not satisfy* both the following additional conditions :

- (i) He has been resident in India (according to the rules applicable to an individual) in two out of ten years, preceding that previous year, *i.e.*, he fulfilled at least one of the *basic conditions* to become resident for at least two years; and
- (ii) He has been in India, during the seven years preceding that previous year, for a period amounting in all to at least 730 days.

In other words, a H.U.F. is ordinarily resident only when its *Karta* satisfies both the above conditions. If the *Karta* satisfies either only one or none of the above conditions the family becomes not ordinarily resident.

Note : Where during the last ten years preceding the previous year the managers or '*Kartas*' of H.U.F. had been different from one another, the total period of stay of successive *Kartas* of the family should be aggregated to determine the residential status of the *Karta* and consequently its H.U.F.

3. Non-resident

All the three types of assesseees (*i.e.*, H.U.F., Firm or A.O.P.) are 'non-resident' only when the control and management of their affairs is situated wholly outside India.

Q.19. Shri Mayank, who was born and brought up in India, went for further studies to the Britain on 1st March, 2019 and came back to India on 1st October, 2020 early in the morning. Find out his residential status for the Assessment Year 2021-22.

Ans. The Assessment Year 2021-22 or the Previous Year 1.4.2020 to 31.3.2021.

Stay in India during the previous year 2020-21 :

$31 + 30 + 31 + 31 + 28 + 31 = 182$ days. (*First basic condition satisfied*). Hence, he is resident.

For determining whether he is ordinarily resident, we shall see his status during the preceding 10 years as under :

The Previous Year 2019-20 — He was non-resident because he was not in India at all during the previous year.

The Previous Year 2018-19 — He was resident, as he left India on 1st March, 2019.

The Previous Year 2010-11 to 2017-18—He was resident, as he was in India throughout.

He was not non-resident in India for 9 out of 10 years preceding the Previous Year 2020-21.

He has been in India for more than 729 days during the preceding 7 years. Therefore, he is resident and ordinarily resident for the Assessment Year 2021-22.

Q.20. Mr. Tony a foreign citizen leaves India for the first time in the last 20 years on 20th November, 2018.

During the Calendar Year 2019 he came to India on 1st September and stayed for a period of 30 days. During the Calendar Year 2020, he did not visit India at all. He came to India on 17th January, 2021 and did not left thereafter. Determine the Residential status of Mr. Tony for the Assessment Year 2021-22 if (a) he is an Indian origin, (b) he is not an Indian origin.

Sol. (a) Mr. Tony, an Indian origin

(i) During the last 20 years (up to the Assessment Year 2019-20) he has been resident in India.

(ii) During the Previous Year 2019-20 (the Assessment Year 2020-21) he came to India for 30 days. Hence, he is non-resident.

(iii) During the Previous Year 2020-21 (the Assessment Year 2021-22) he has been in India for 74 days. He was not in India for a visit for at least 182 days, hence he is non-resident for the Assessment Year 2021-22.

(b) Mr. Tony, not an Indian origin

(i) Same as above

(ii) Same as above

(iii) The Assessment Year 2021-22 : During four years preceding the previous year, he was in India for more than 365 days and during the previous year he was in India for more than 60 days. Further, he was not non-resident for 9 years out of 10 years preceding the previous year and was in India for more than 729 days during 7 years preceding the previous year. Hence, he is ordinarily resident for the Assessment Year 2021-22.

Q.21. The following are the incomes of Shri Veer Singh for the Previous Year 2020-21 :

	₹
1. Income from agriculture in Pakistan	30,000
2. Salary received in India but the services were rendered in Iraq (Computed)	12,000
3. Income from a business carried on in India	12,000
4. Dividend from a Domestic Company	2,000
5. Interest earned and received in Bangladesh from bank deposits there	6,000
6. Income from a business in Sri Lanka but controlled from India and remitted to India	14,000

Compute Shri Veer Singh gross total income if he is : (i) Resident, (ii) Not-Ordinarily Resident and (iii) Non-Resident.

Sol.

Computation of Gross Total Income
(for the Assessment Year 2021-22)

	Resident	Not-Ordinarily Resident	Non-Resident
	₹	₹	₹
1. Income from agriculture in Pakistan	30,000	—	—
2. Salary received in India but services rendered Iraq	12,000	12,000	12,000
3. Income from a business in India	12,000	12,000	12,000
4. Dividend from a domestic company	2,000	2,000	2,000
5. Interest from bank deposits in Bangladesh received there	6,000	—	—
6. Income from a business in Sri Lanka but controlled from India and remitted to India	14,000	14,000	—
Gross Total Income	76,000	40,000	26,000

Note : Dividend received from domestic company is taxable (*w.e.f.* Assessment Year 2021-22).

Q.22. The following are the incomes of Shri Bijendra Singh for the Previous Year 2020-21 :

1. Income from salary received in India for services rendered in Sydney ₹ 8,000 (computed).
2. Income from house property in Iraq received in India ₹ 1,000.
3. Dividend from an Indian company ₹ 2,000.
4. Interest earned and received in Bangladesh from bank deposits there ₹ 6,000.
5. Profits of business established in Pakistan deposited in a bank there, this business is controlled from India (out of ₹ 20,000 a sum of ₹ 10,000 is remitted to India) ₹ 20,000.
6. Income accrued in Bhopal but received in Singapore ₹ 6,000.
7. Income from agriculture in England, it is all spent on the education of children in London ₹ 5,000.

Compute the Gross Total Income for the Assessment Year 2021-22 if he is : (1) Resident, (2) Not-ordinarily resident, and (3) non-resident.

Sol.

Computation of Gross Total Income*(for the Assessment Year 2021-22)*

	Resident	Not- Ordinarily Resident	Non- Resident
	₹	₹	₹
1. Income from Salary received in India	8,000	8,000	8,000
2. Income from House Property received in India	1,000	1,000	1,000
3. Dividend from an Indian company	2,000	2,000	2,000
4. Interest income in Bangladesh	6,000	—	—
5. Income from a business in Pakistan controlled from India	20,000	—	—
	—	20,000	—
6. Income accrued in Bhopal	6,000	6,000	6,000
7. Income from agriculture in England	5,000	—	—
Gross Total Income	48,000	37,000	17,000

Note : Dividend received from an Indian company is taxable (*w.e.f.* Assessment Year 2021-22).

Q.23. Mr. Brijesh has the following incomes for the Previous Year ended 31st March, 2021 :

	₹
1. Salary received from the Govt. of India (He lived in America for 3 months due to his service and received salary for such period there) (computed)	3,60,000
2. Interest from a foreign company received in America and deposited in a bank there	60,000
3. Income from house property in India received in America	1,25,000
4. Interest on debentures from an Indian Company received in New York and spent there	25,000
5. Income from a business in Meerut managed from America	56,000
6. His brother gifted him from New York	20,000

Compute his gross total income, if he is (a) ordinarily resident, (b) not ordinarily resident, (c) non-resident.

Sol.

Computation of Gross Total Income*(for the Assessment Year 2021-22)*

	Ordinarily Resident	Not- Ordinarily Resident	Non- Resident
	₹	₹	₹
1. Salary received from the Govt. of India (Deemed to accrue in India)	3,60,000	3,60,000	3,60,000
2. Interest from foreign company	60,000	—	—
3. Income from house property in India	1,25,000	1,25,000	1,25,000

4. Interest on debentures from Indian Company	25,000	25,000	25,000
5. Income from business in Meerut	56,000	56,000	56,000
6. Gift from brother	Exempt	Exempt	Exempt
Gross Total Income	6,26,000	5,66,000	5,66,000

Q.24. Ajay returned to India on 1st July, 2020 for permanently residing in India after a stay of 18 years in America. During the period of 18 years, he never came to India.

His incomes for the Previous Year 2020-21 are as under :

- Salary from a company in America ₹ 1,60,000 p.m. However, he received the salary for the month of June 2020 in India ₹ 1,60,000.
- Salary from an Indian Company from August 2020 to March 2021 ₹ 10,00,000.
- Rent from a house property in America ₹ 6,00,000, credited in his bank account in America.
- Interest on his bank account in America ₹ 10,000, credited there.
- Interest credited in his savings bank A/c in India ₹ 20,000.
- Dividends received from a foreign company in India ₹ 40,000.

Determine the residential status and Gross Total Income for the Assessment Year 2021-22.

Sol. Ajay was in India during the previous year from 1-7-2020 to 31-3-2021 i.e., for 274 days. Since he was in India for a period of 182 days or more during the Previous Year 2020-21, he would be resident in India. However, he was non-resident in nine out of ten previous years preceding the Previous Year 2020-21, he would be not ordinarily resident in India. Accordingly, his gross total income would be as under :

	₹
1. Salary in America—Non-taxable	—
2. Salary for the month of June received in India	1,60,000
Salary from an Indian company	10,00,000
	<u>11,60,000</u>
Less : Standard Deduction	50,000
	11,10,000
3. Rent—Neither received in India nor accrued in India—Non-taxable	—
4. Interest credited in America—Non-taxable	—
5. Interest on S.B. A/c in India	20,000
6. Dividends received from a foreign company in India	40,000
Gross Total Income	<u>11,70,000</u>

Note : Standard Deduction of ₹ 50,000 is allowed on the salary received in India.

SECTION-C (LONG ANSWER TYPE) QUESTIONS

Q.1. Explain the term 'income' as per Income Tax Act.

Ans. **Meaning of Income**

As per section 2 and 3 of Income Tax Act, 1961, 'Income' is one of the important terms of the Income Tax Act as income tax is charged on the income of a person. This term has not been defined in the Income Tax Act, except that it states as to what is included in income.

Under this section income includes :

1. profits and gains;
2. dividend;
3. voluntary contributions received by (a) a trust created for charitable or religious purposes, or (b) by a scientific research association, or (c) by a games or sports association or institution, or (d) any university or other educational institution, or (e) any hospital or other institution, or (f) an electoral trust;
4. the value of any perquisite or profits in lieu of salary taxable under the head 'salaries';
5. any special allowance or benefit specifically granted to the assessee to meet his expenses wholly, necessarily and exclusively for the performance of his duties;
6. any allowance granted to the assessee either to meet his personal expenses at the place where he performs his duties or compensate him for the increased cost of living, for example, City Compensatory Allowance;
7. the value of any benefit or perquisite which is obtained by any representative assessee;
8. any sum chargeable to income tax under the head 'business' or 'profession';
9. any capital gains;
10. the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society;
11. any winnings from lotteries, crossword puzzles, races including horse races, card-games and other games of any sort or from gambling or betting of any form or nature whatsoever;

Explanation :

- (a) 'Lottery' includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever;
- (b) "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game;
12. any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set-up under the Employees' State Insurance Act or any other fund for the welfare of such employees;
13. any sum received under a Keyman Insurance Policy including the sum received by way of bonus on such policy.

Keyman insurance policy means a life insurance policy taken by a person on the life of another person who is or was (a) an employee of the first person, or (b) connected in any manner with the business.

The sum of Keyman insurance policy is assessable as following :

- (a) When the sum is received by the organisation, who has taken the policy, it is assessable under the head profits and gains of business or profession.
- (b) When the amount is received by the employee, it is assessable as profits in lieu of salary.
- (c) When the amount is received by a person, where an employer-employee relationship does not subsist (Chairman or Director etc. of a company), it is assessable under the head income from other sources.

14. the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members;
15. any consideration received for issuing shares as exceeds the fair market value of the shares;
16. any sum of money received as an advance in the course of negotiations for the transfer of a capital asset and such negotiation fails, the amount so forfeited;
17. if the assessee receives (in cash or kind) the following from the Central Government or the State Government or any authority or body or agency it will be treated as income : Subsidy or grant or cash incentive or duty drawback, or waiver or concession or reimbursement;
However, if such subsidy or grant or reimbursement is taken into account for determination of the actual cost of the asset, it will not be treated as income.
The subsidy or grant by the Central Government or the State Government, will not be treated as income.
The LPG subsidy and other welfare subsidies received by individuals shall not be included in income.
18. Any sum of money or value of property received without consideration or for inadequate consideration by any person from any person or persons on or after 1.4.2017 (For details see chapter 12);
19. Compensation or other payment, due or received by any person in connection with the termination of his employment or modification of the terms and conditions relating thereto;
20. The fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset.

Q.2. What is meant by casual income? Discuss the various other provisions relating to casual income.

Ans. Meaning of Casual Income

Any receipt which is of a casual and non-recurring nature is casual income. In other words, casual income is that income the receipt of which is accidental and without any stipulation. It is in nature of an unexpected wind-fall.

Winnings from lotteries, crossword puzzles, card games and other games of any sort or from gambling or betting of any form or nature whatsoever are casual incomes. Receipts even from habitual betting are non-recurring receipts and assessable as casual income.

The casual income does not include :

1. (a) capital gains; or
(b) receipts arising from business or the exercise of a profession or occupation; or
(c) receipts, by way of addition to remuneration of an employee, such as bonus, gratuity, perquisites, etc.
2. Voluntary payment received in exercise of occupation are not treated as casual income, e.g., tips given in an ordinary way to taxi-drivers in the employ of taxi-owners are income arising from the exercise of an occupation. Similarly, gratuities to waiters in a hotel are taxable. A receipt may be taxable as income arising from the legal exercise of the profession even if the amount is received as a gift from the third party to whom the

legal services were not rendered and who was under no obligation to pay anything at all.

If an architect submitted a plan in a competition for the construction of a building, the prize won by him, is income from profession.

3. A gift from a relative is not income at all. Birthday and wedding gifts are the simplest instances in point. A gift from a relative does not become income merely because it is repeated year after year. A regular allowance is given year after year purely as a voluntary gift by a parent to a child or by a husband to his wife, or by one relation to another, is merely a fresh gift every time it is paid and does not amount to income.
4. Payment by the husband to his wife under an agreement to live apart as maintenance allowance is neither casual income nor a personal gift. Hence, it is taxable.

Other Provisions Relating to Casual Income

1. **Expenses are not Deductible** : If expenses are incurred to receive casual income, such expenses are not deductible from any income. *For example*, an individual purchases lottery tickets, the cost of lottery tickets is not deductible from any income whatsoever. Similarly, if postal charges have been paid for sending crossword puzzles, such charges (expenses) are not deductible from any income.
2. **Self-off of Losses not Permitted** : If instead of casual income there is a casual loss, such loss cannot be set-off from any income. *For example*, if a person wins a card game on the first day and loses the next day, he cannot set-off the loss against any income.
3. **Tax Deduction at Source** : If the winnings from any lottery, horse race, crossword puzzle, card game and other game of any sort exceed ₹10,000, the tax will be deducted at source at the prescribed rate.
4. **Rate of Tax** : On winnings from lotteries, crossword puzzles, races, gambling, betting, etc. tax is chargeable @ 30%.

Q.3. Discuss the term 'person' as per Income Tax Act.

Ans. **Meaning of Person**

As per Income Tax Act, the term 'person' includes the following :

- (i) an individual;
- (ii) a Hindu Undivided Family;
- (iii) a company;
- (iv) a firm;
- (v) an association of persons or a body of individuals whether incorporated or not;
- (vi) a local authority; and
- (vii) every artificial juridical person, not falling with any of the preceding sub-clauses.

An individual means a natural person or a human being, who may be male, female, minor child or a lunatic.

A Hindu Undivided Family means a Hindu family which consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters.

A company may be defined as an artificial person created by law with perpetual succession, a common seal and shares carrying limited liability.

As per section 2(17) of the Income Tax Act, a company means :

- (i) any Indian company, or

- (ii) any body corporate incorporated under the law of a foreign country, or
- (iii) any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

A firm means a partnership firm which is defined under the Partnership Act.

An Association of persons means two or more persons joining for a common purpose for the purpose of earning income. The A.O.P. may consist of two or more individuals or any other persons, *i.e.*, an individual and a company or two or more companies.

Body of individuals means a conglomeration of individuals who come together by chance, *e.g.*, by birth or testamentary dispositions.

'Local Authority' : An authority legally entitled to or entrusted by the Government with the management or control of a municipal Corporation, District Board, etc.

Artificial juridical person includes a public corporation which is established under special act of legislature, an idol or deity, university, etc.

Q.4. Discuss the various kinds of agricultural income.

Ans. Kinds of Agricultural Income

Following are the major kinds of agricultural income :

1. **Rent or Revenue Derived from Land** : When one person grants to another a right to use his land for agricultural purposes, the former receives from the latter rent or revenue (in cash or kind) in consideration of such use. Such rent or revenue is treated as agricultural income.
2. **Income from Agricultural Operations** : An income is agricultural when some agricultural operations are performed. Agricultural operations means cultivation of a field, tilling of the land, watering it, sowing of the seeds, planting and similar operations on the land.
Products which grow wild on the land or are of spontaneous growth not involving any human labour or skill upon the land are not products of agriculture. The income derived therefrom is not agricultural income.
3. **Income from Making the Produce Fit for Market** : If there is no market of the produce of the fields and the cultivator or receiver of rent-in-kind performs any activity to make the produce fit for market, any income from such activity is also agricultural income. The process employed in curing of coffee flue curing of tobacco, ginning of cotton, etc., is such a process.
4. **Income from the Sale of Produce** : Income derived by a cultivator or receiver of rent-in-kind from the sale of produce raised or received by him is treated as agricultural income, even if he keeps a shop for the sale of such produce.
5. **Income from a Farmhouse** : The income from a farmhouse is treated as agricultural income if the following conditions are satisfied :
 - (i) the building is owned and occupied by the cultivator or receiver of the rent or revenue of any such land;
 - (ii) it is situated on or in the immediate vicinity of the agricultural land;
 - (iii) the building is, by reason of his connection with the land, used as a dwelling house or a store-house or an out-house by the cultivator or receiver of rent-in-kind;

(iv) the land is situated in an urban area and is either assessed to land revenue in India or is subject to a local tax assessed and collected by the officers of the government.

If the land revenue or local tax is not payable on such land :

- (i) The land is situated in the 'non-urban' area; or
- (ii) The land is situated within municipality or cantonment board jurisdiction, has a population of less than 10,000; or
- (iii) The farm building is not situated within the area specified below, the income derived from such building shall be agricultural income;
 - The land is not situated in an area within the distance, measured aeriaily :
 - (a) not being more than two kilometres from the local limits and which has a population of more than ten thousand but not exceeding one lakh; or
 - (b) not being more than six kilometres from the local limits and which has a population of more than one lakh but not exceeding ten lakh; or
 - (c) not being more than eight kilometres from the local limits and which has a population of more than ten lakh.

6. **Income from Saplings or Seedlings** : The income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

Q.5. Explain the partly agricultural income and non-agricultural income with the help of suitable examples.

Ans. Partly Agricultural Income and Partly Non-agricultural Income

Sometimes there is composite income, which is partially agricultural and partially non-agricultural. For determining the non-agricultural income chargeable to tax, the market value of any agricultural produce which has been raised by the assessee and which has been utilized as a raw material in such business shall be deducted. No further deduction shall be made in respect of the cost of cultivation incurred by the assessee as a cultivator.

For this purpose, *market value* shall be deemed to be :

- (a) where the agricultural produce is ordinarily sold in the market, the value calculated according to the average price at which it has been so sold, during the relevant previous year; or
- (b) where the agricultural produce is not ordinarily sold in the market the aggregate of the following shall be its market value :
 - (i) the expenses of cultivation;
 - (ii) the land revenue or rent paid for the land on which it was grown; and
 - (iii) the profit which in the opinion of the Assessing Officer is reasonable.

Examples :

1. **Profits of such Sugar Factories** which produce sugar from cane grown on their own farms are treated as partly agricultural income. Sugarcane is generally sold in the market. Hence, in order to separate the agricultural income from the business income, the average market price of sugarcane during the relevant previous year shall be charged as an expenditure and no note will be taken of the expenses of cultivating the sugarcane. The income thus determined will be the business income.

2. **Income from Growing and Manufacturing of Tea :** Sixty per cent of the income derived from the sale of tea grown and manufactured by the seller in India is deemed to be agricultural income and the remaining forty per cent is taken as business income.
3. **Income from Growing and Manufacturing of Centrifuged Latex or Cenex :** Sixty five per cent of the income derived from the sale of centrifuged latex or cenex manufactured or processed by him from rubber grown by him in India is deemed to be agricultural income and the remaining thirty-five per cent is taken as business income.
4. **Income from Growing and Manufacturing of Coffee :**
 - (a) Seventy-five per cent of the income derived from the sale of coffee grown and cured by the seller in India is deemed to be agricultural income and twenty-five per cent is taken as business income.
 - (b) Sixty per cent of the income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, with or without mixing of chicory or other flavouring ingredients are deemed to be agricultural income and the remaining forty per cent is taken as business income.

Q.6. From the particulars given below compute the tax liability of Mr. Devendra (a senior citizen) for the Assessment Year 2021-22 :

	₹
(a) Income from self-cultivated land (gross proceeds)	50,000
(b) Rent from 10 hectare of land given to tenants (per hectare per annum)	3,000
(c) Annual rental value of the houses given to above mentioned tenants	6,000 p.a.
His expenses are :	
(I) Own cultivated land :	
(i) Depreciation to equipments	2,000 p.a.
(ii) Land revenue paid to State Govt.	1,200 p.a.
(iii) Purchase of seeds and fertilizers	6,000 p.a.
(iv) Labour charges	2,400 p.a.
(II) Land given to tenants :	
(i) Land revenue	1,200 p.a.
(ii) Other expenses	2,000 p.a.
(III) House Property : Repairs	1,200 p.a.
His business profit for the year is	10,30,600

Sol. Computation of Net Agricultural Income of Mr. Devendra
(for the Assessment Year 2021-22)

	₹	₹
<i>Computed as Income from House Property :</i>		
Rent from farmers (A.V.)	6,000	
Less : 30% of A.V.	1,800	4,200
<i>Computed as Income from Business :</i>		
Income from self-cultivated land	50,000	
Less : Expenses :	₹	
Depreciation	2,000	
Land revenue	1,200	

Seeds and fertilizers	6,000		
Labour charges	2,400	11,600	38,400
<i>Computed as Income from Other Sources :</i>			
Rent from tenants		30,000	
Less : Expenses : Land revenue	1,200		
Other expenses	2,000	3,200	26,800
			<u>69,400</u>
			Net Agricultural Income

Computation of Tax Liability
(for the Assessment Year 2021-22)

	₹
Non-agricultural income (Business income being T.I.)	10,30,600
Agricultural income	69,400
	<u>Aggregate Income</u>
	<u>11,00,000</u>
Tax on ₹ 11,00,000	₹
on ₹ 3,00,000	Nil
on ₹ 2,00,000 @ 5%	10,000
on ₹ 5,00,000 @ 20%	1,00,000
on ₹ 1,00,000 @ 30%	<u>30,000</u>
	<u>1,40,000</u>
Less : Tax on ₹ 3,00,000 + 69,400 = ₹ 3,69,400	<u>3,470</u>
	1,36,530
Add : Health and Education Cess @ 4%	<u>5,461</u>
	<u>Tax Liability</u>
	<u>1,41,991</u>

Rounded off ₹ 1,41,990.

Q.7. Discuss the rules on the basis of which the residence of an individual is determined.

Ans. Rules of Residence of An Individual

The residence of an individual is determined on the basis of the rules stated hereunder :

1. Resident (Ordinarily Resident)

An individual is said to be resident in India in any previous year if he satisfies any one of the following basic conditions : [Sec. 6(1)]

- (a) he is in India in the previous year for a period of 182 days or more, or
- (b) he has been in India for at least 365 days during the four years preceding the previous year and is in India for at least 60 days during the previous year.

Explanation 1 : Exceptions to the above rules of 60 days' stay in India :

- (i) An individual who is a citizen of India and leaves India in any previous year for the purpose of employment or as a member of the crew of an Indian ship must have stayed in India for at least 182 days during the previous year instead of 60 days;
- (ii) If any citizen of India or a foreign national of *Indian origin*, who is living outside India, comes on a visit to India in the previous year, he must have stayed in India for at least 120 days [if total income (other than income from foreign sources) exceeding ₹ 15 lakhs during the previous year and if total income (other than income from foreign sources)

up to ₹ 15 lakhs during the previous year, he must have stayed in India for at least 182 days (*w.e.f.* Assessment Year 2021-22)] during the previous year instead of 60 days.

In other words, in the case of individual covered by the above two exceptions only condition (a) is to be satisfied to become a resident in India and condition (b) has no significance at all.

In exception (i) 'employment' includes self employment like business or profession taken up by assessee abroad.

'**Indian origin**' means that either he or either of his parents or any of his grand parents was born in undivided India. Further, '*comes on a visit to India in the previous year*' means that he may come to India for any purpose, whatsoever. It may be a business purpose or personal purpose of any nature or he may come to meet his relations or he may come for a pleasure trip only.

Explanation 2 : An individual who is a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined as may be prescribed.

(a) Stay in India for 182 days or more

As per the first basic condition, it is necessary that the individual must have stayed anywhere in India for at least 182 days during the previous year. It is not at all necessary that he should stay at a stretch for 182 days. His total stay for at least 182 days may be with gaps. It is also not necessary that the entire stay should be in one place. It may be at different places in India.

(b) Stay in India for at least 365 days during the four years preceding the previous year and for at least 60 days or 182 days, as the case may be, during the previous year

If an individual's total stay in India during the four years preceding the previous year is for at least 365 days and rather he remains in India for at least 60 days or 182 days, as the case may be, during the previous year, he will become resident for that previous year.

Here again, it is not necessary that he should stay during the previous year in India at a stretch for 60 days or 182 days, as the case may be, or the entire stay need not be at one place only.

Deemed to be Resident : An Indian citizen, who is not liable to pay tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature, shall be deemed to be resident in India. The condition for deemed residential status applies only if the total income (other than income from foreign sources) exceeds ₹ 15 lakhs during the previous year (*w.e.f.* Assessment Year 2021-22). [Sec. 6(1A)]

Additional Conditions : In fact, in order that an individual may become ordinarily resident in India, he has to satisfy both the following conditions besides satisfying any one of the above mentioned basic conditions : [Sec. 6(6)(a)]

- (i) he has been resident in India in at least two out of the ten previous years preceding the relevant previous year, and
- (ii) he has been in India for at least 730 days in all during the seven previous years preceding the relevant previous year.

In condition (i) residence of two years out of ten years preceding the previous year means that the assessee must have satisfied at least one of the basic conditions for two years out of ten years preceding the previous year. In condition (ii) the assessee must be physically present in India for at least 730 days during the seven previous years preceding the relevant previous year.

2. Not-ordinarily Resident

If an individual satisfies any one of the above basic conditions : (a) or (b) but does not satisfy the aforesaid two additional conditions, he is said to be 'Non-ordinarily Resident'.

[Sec. 6(6)(a)]

It means that in order to be classified as not-ordinarily resident an individual resident has to prove that either he has been resident in India in less than two out of the ten previous years preceding the relevant previous year or has been in India for less than 730 days during the seven previous years preceding the relevant previous year.

In other words, an individual is said to be "Not-ordinarily Resident" in India in any of the previous year if :

- (i) he has been a non-resident in India in nine out of the ten previous years preceding that year, or
- (ii) he has during the seven years preceding that year been in India for a period of, or periods amounting in all, to seven hundred and twenty-nine days or less, or
- (iii) A citizen of India, or a person of Indian origin, having total income, other than income from foreign sources, exceeding ₹ 15 lakh during the previous year, who has been in India for a period or periods amounting in all to 120 days or more but less than 182 days (*w.e.f.* Assessment Year 2021-22), or
- (iv) A citizen of India who is classified as deemed to be resident u/s 6(1A) (*w.e.f.* Assessment Year 2021-22).

Note : Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in India or profession set up in India *w.e.f.* 1.4.2021 and which is not deemed to accrue or arise in India).

Since the incidence of tax is lesser in the case of a not ordinarily resident as compared to an ordinarily resident it is for the assessee to prove that he does not satisfy at least one of the additional conditions in order to be called Not Ordinarily Resident.

3. Non-resident

If an individual satisfies none of the aforesaid basic conditions (a) and (b) stated under the head 'Resident' he is said to be Non-Resident. In this case, additional conditions are irrelevant.

Q.8. Determine the residential status in the following cases :

1. An Australian individual having remained in India for 15 years left for Australia in May 2018 and came back to India on 1st March, 2021.
2. A German individual having remained in India for 15 years left for Germany in March 2018 and came back to India on 30th September, 2020.
3. Mr. Ajay, an Indian citizen, serving in a company in London, comes to India every year for five months.
4. A Bengali gentleman has been doing business in Decca (Bangladesh) for the last 15 years and he comes to India every year for seven months.
5. A foreign individual came to India for the first time in June 2016 and left India on 1st July, 2019. He again came back to India in January, 2021.

Ans. 1. During the Previous Year 2020-21, the assessee did not remain in India for 182 days or more. Of course he remained in India for a period amounting in all to more than 365 days during the four years preceding the Previous Year 2020-21, but he was not in India for 60 days

or more during the said previous year : Hence, he will be '**non-resident**' for the Previous Year 2020-21.

Note : The assessee remained in India for 31 days, i.e., from 1st March to 31st March, 2021, during the Previous Year.

2. The assessee remained in India for more than 182 days during the Previous Year (i.e., from 30th September 2020 to 31st March 2021), he was not non-resident in India in nine out of the ten Previous Year (2010-11 to 2019-20) preceding the Previous Year 2020-21. Further he had been in India for a period amounting in all to more than 279 days during the seven previous years preceding the Previous Year 2020-21. Hence, he is '**ordinarily resident**'.

Note : Assessee remained in India for 183 days during the previous year (i.e., from 30th September, 2020 to 31st March, 2021).

3. The assessee will be '**non-resident**' for Previous Year 2020-21 because he was not in India for at least 182 days during the previous year.

Note : The period of 5 months amounts to less than 182 days.

4. He remained in India for at least 365 days during the four years preceding the relevant previous year and remained in India for at least 182 days during the previous year. Hence, he satisfied the second basic condition for becoming a resident. He was resident in India in two out of ten years preceding the relevant previous year and he also remained in India for 730 days during the seven years preceding the relevant previous year. Hence, he is '**ordinarily resident**'.

Note : The period of 7 months amounts to more than 182 days.

5. The foreign individual remained in India for a period amounting in all to more than 365 days during the four years preceding the Previous Year 2020-21 and has been in India for more than 60 days during the relevant previous year, thus he satisfies the second basic condition. Further he was in India for more than 729 days during seven years preceding the previous year and he was not non-resident in India in nine out of ten years preceding the relevant previous year. Thus he will be '**ordinarily resident**' for the Previous Year 2020-21.

Note : Assessee remained in India for 90 days during the previous year (i.e., from 1st January to 31st March, 2021).

Q.9. The following are the incomes of Shri Rudra Pratap for the Previous Year 2020-21 :

- (a) Profit from business in Iraq received in India ₹ 5,000;
- (b) Income from house property in Iraq received in India ₹ 500;
- (c) Income from house property in Pakistan deposited in a Bank there ₹ 1,000;
- (d) Profits of business established in Pakistan deposited in a bank there ₹ 20,000 (out of ₹ 20,000 a sum of ₹ 10,000 is brought into India)—this business is controlled from India;
- (e) Accrued in India but received in England ₹ 2,000;
- (f) Profit earned from business in Meerut ₹ 6,000;
- (g) Income from agriculture in England—it is all spent on the education of children in London ₹ 5,000; and
- (h) Past untaxed foreign income brought into India during the previous year ₹ 10,000.

From the above particulars ascertain the gross total income of Shri Rudra Pratap for the Assessment Year 2021-22 if Shri Rudra Pratap is (i) a resident, (ii) a not ordinarily resident, and (iii) a non-resident.

Sol. **Computation of Gross Total Income**
(for the Assessment Year 2021-22)

	Resident	Non-Ordinarily Resident	Non-Resident
	₹	₹	₹
Income accrued and received in India :			
(f) Profit earned from business in Meerut	6,000	6,000	6,000
Income accrued in India but received outside India :			
(e) Accrued in India but received in England	2,000	2,000	2,000
Income accrued outside India but received in India :	₹	₹	₹
(a) Profit from business in Iraq received in India	5,000	5,000	5,000
(b) Income from house property in Iraq received in India	500	500	500
Income accrued outside India and not received in India :			
(c) Income from house property in Pakistan deposited in a bank there	1,000	—	—
(d) Profits of business established in Pakistan deposited in a bank there, the business is controlled from India	20,000	20,000	—
(g) Income from agriculture in England	5,000	—	—
(h) Past untaxed foreign income brought into India during the previous year	—	—	—
Gross Total Income	39,500	33,500	13,5000

Note : Past untaxed foreign income brought into India in the previous year is not taxable as it is not income of the previous year.

Q.10. Shri Rahul Sharma has the following incomes during the Financial Year 2020-21 :

- (i) Income from a business in Meerut managed from U.S.A. ₹ 25,000.
- (ii) Income from the pension for services rendered in India received in Melbourne ₹ 15,000 (computed).
- (iii) Income from assets in Myanmar received in India ₹ 10,000.
- (iv) Profit from business in Sri Lanka deposited in a bank there ₹ 15,000.
- (v) Income from the profession in Kenya received there, the profession was set-up in India ₹ 15,000.
- (vi) Profits on sale of machinery in India received in Nepal ₹ 10,000.
- (vii) Interest on U.K. Government securities, half of which received in India ₹ 5,000.
- (viii) Untaxed income of the previous year brought in India during the previous year ₹ 40,000.

Calculate the gross total income of Shri Rahul Sharma for the Assessment Year 2021-22, if he is (a) Resident, (b) Not-ordinarily resident and (c) Non-resident.

Sol. Computation of Gross Total Income
(for the Assessment Year 2021-22)

	Resident	Not- Ordinarily Resident	Non- Resident
	₹	₹	₹
(i) Income from a business in Meerut managed from U.S.A.	25,000	25,000	25,000
(ii) Income from Pension for services rendered in India, received in Melbourne	15,000	15,000	15,000
(iii) Income from assets in Myanmar received in India	10,000	10,000	10,000
(iv) Profit from business in Sri Lanka deposited in a bank there	15,000	—	—
(v) Income from the profession in Kenya received there, the profession was set-up in India	15,000	15,000	—
(vi) Profits on sale of machinery in India received in Nepal	10,000	10,000	10,000
(vii) Interest on U.K. Government securities, half of which received in India	5,000	2,500	2,500
(viii) Untaxed income of the previous year brought in India during the previous year	—	—	—
Gross Total Income	95,000	77,500	62,500

Q.11. The following are the Incomes of Mr. Arjun for the Previous Year 2020-21 :

	₹
1. Dividend from Indian Company	10,000
2. Profit from business in Japan received in India	12,000
3. Profit from business in Pakistan deposited in a bank there. This business is controlled from India	20,000
4. Profit from business in Indore (Controlled by London Head Office)	11,000
5. Interest received from a non-resident Mr. Abdul, on the loan provided to him for a business carried on in India	5,000
6. Income was earned in America and received there, but brought in India	8,000
7. Share of income from Indian partnership firm	15,000
8. Income from house property in India received in America (Calculated)	12,000
9. Interest on debentures of an Indian company received in Dubai	5,000
10. Capital Gain on sale of agricultural land situated in Ajmer (Urban area)	8,000

Compute his gross total income, if he is :

- (a) Resident,
- (b) Not-ordinarily resident,
- (c) Non-resident.

Sol. Computation of Gross Total Income of Mr. Arjun
(for the Assessment Year 2021-22)

	Resident	Not- Ordinarily Resident	Non- Resident
	₹	₹	₹
1. Dividend from Indian Company	10,000	10,000	10,000
2. Profit from business in Japan— <i>Received in India</i>	12,000	12,000	12,000
3. Profit from business in Pakistan— <i>Business controlled from India</i>	20,000	20,000	—
4. Profit from business in Indore— <i>Income accrued in India</i>	11,000	11,000	11,000
5. Interest from non-resident— <i>Business carried on in India</i>	5,000	5,000	5,000
6. Foreign income brought in India	8,000	—	—
7. Share of income from Indian partnership firm	Exempt	Exempt	Exempt
8. Income from house property in India	12,000	12,000	12,000
9. Interest on debentures of an Indian Company	5,000	5,000	5,000
10. Capital gain on sale of agricultural land situated in Ajmer (Urban area)	8,000	8,000	8,000
Gross Total Income	91,000	83,000	63,000

Note : Dividend received from an Indian company is taxable (*w.e.f.* Assessment Year 2021-22).

Q.12. Explain any fifteen items of income of all assesseees which are totally exempt from tax.

Ans. Exemption from Tax for All Assesseees

Following are the exempted income of all assessee :

- 1. Agricultural Income :** Such income is exempt if agricultural land is situated in India. For details see the chapter on 'Agricultural Income'. [Sec. 10(1)]
- 2. Sums Received from H.U.F. :** Any sum received by an individual as a member of a Hindu Undivided Family out of the income of the family is exempt from tax. [Sec. 10(2)]
- 3. Share of Income of a Partner in the Firm :** A partner of a firm will be exempt from tax on his share of income in the firm, which shall be computed by dividing the taxable profits of the firm in the same proportion as the profit sharing ratio mentioned in the partnership deed. [Sec. 10(2A)]
- 4. Interest on Moneys Standing to the Credit of Individual in his NRE A/c :** As per section 10(4)(ii), in the case of an individual, any income by way of interest on moneys standing to his credit in a **Non-resident (External) Account (NRE A/c)** in any bank in India in accordance Foreign Exchange Management Act, 1999 (FEMA, 1999), and the rules made thereunder, would be exempt, provided such individual;
 - (i) is a person resident outside India, as defined in FEMA, 1999, or
 - (ii) is a person who has been permitted by the Reserve Bank of India to maintain such account.

In this context, it may be noted that the joint holders of the NRE Account do not constitute an AOP by merely having these accounts in joint names. The benefit of exemption under section 10(4)(ii) will be available to such joint account holders, subject to fulfillment of other conditions contained in that section by each of the individual joint account holders. [Sec. 10(4)(ii)]

5. **Royalty Income or fees for Technical Services received from National Technical Research Organisation (NTRO)** : Income arising to non-corporate non-residents and foreign companies, by way of royalty from, or fees from technical services rendered in or outside India to, the National Technical Research Organisation (NTRO) is exempt. [Sec. 10(6D)]
6. **Payments under Bhopal Gas Leak Disaster Act, 1985** : Such payments received by a person will be exempt from tax but any payment in this connection for which deduction has already been allowed will not be exempt. [Sec. 10(10BB)]
7. **Compensation of Disaster** : Any amount received or receivable from the Central Government or a State Government or a local authority by an individual or his legal heir by way of compensation on account of any disaster shall be exempt. [Sec. 10(10BC)]
However, such amount to the extent allowed as a deduction under this Act on account of any loss or damage caused by such disaster shall not be exempt.
8. **Life Insurance Money** : Any sum received under a life insurance policy including bonus shall be exempt. [Sec. 10(10D)]

Exceptions : The amount shall not be exempt in the following cases :

- (i) Amount received under a Keyman insurance policy.
- (ii) Any sum received under an insurance policy issued after 31.3.2003 but before 1.4.2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 20% of the actual capital sum assured.
- (iia) Any sum received under an insurance policy issued after 31.3.2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 10% of actual capital sum assured.
- (iib) Any sum received under an insurance policy issued after 31.3.2013 in respect of which the premium payable for any of the years during the term of the policy exceeds 15% of the capital sum assured, if the policy is for insurance on the life of any person, who is :
 - (a) a person with a disability or a person with a severe disability; or
 - (b) suffering from disease or ailment as specified under *section 80 DDB*.

"Actual capital sum assured" means the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account :

(a) the value of any premium agreed to be returned; or

(b) any benefit by way of bonus or otherwise over and above the sum actually assured, which is to be or may be received under the policy by any person.

However, if the sum is received on the death of a person it shall be exempt.

Taxation of Unit Linked Insurance Plans (ULIPs)

(Applicable from Assessment Year 2021-22)

No exemption under Section 10(10D) shall be available in respect of **ULIPs** issued on or after 1.2.2021, if the amount of premium payable for any of the previous year during the term of the policy exceeds ₹ 2,50,000. Further, if the premium is payable by a person for more than one **ULIPs** the exemption shall be available only for those policies whose aggregate premium does not exceed ₹ 2,50,000, for any of the previous years during the term of any of the policy. However, the exemption shall continue to be available if the sum is received on the death of a person.

(Unit Linked Insurance Plan (ULIP) is a life insurance product, which provides risk cover for the policyholder along with investment. Premium payable for any of the years during the term of the policy should not exceed 10% of the sum assured.)

9. **Any payment from Sukanya Samriddhi Account.** [Sec. 10(11A)]

10. **Payment from National Pension System Trust.** [Sec. 10(12A)]

Any payment from the National Pension System Trust to an assessee on the closure of account or his opting out of the pension scheme (referred to in Sec. 80CCD), up to 60% of the total amount payable to him shall be exempt.

11. **Partial withdrawal from National Pension System Trust** [Sec. 10(12B)]

Partial withdrawal by an employee from National Pension System Trust (in accordance with the terms and conditions specified under Pension Fund Regulatory Development Authority Act, 2013 and regulations made thereunder) up to 25% of the amount of contributions made by him shall be exempt.

12. **Interest of different Types :** The following interest incomes are fully exempt from tax : [Sec. 10 (15)]

(i) Interest and premium on redemption of notified securities, bonds or certificates such as :

(a) National Defence Gold Bonds, 1980,

(b) Special Bearer Bonds, 1991,

(c) Post Office Cash Certificates (5 Years),

(d) P.O. Savings Bank Account,

(i) Individual account—Maximum exemption limit ₹ 3,500.

(ii) Joint account—Maximum exemption limit ₹ 7,000.

(e) P.O. cumulative Time Deposit Account,

(f) Public Account of P.O. Savings Account Rules (interest up to ₹ 5000), and

(g) Special Deposit Scheme, 1981 and Non-Resident (Non-Repatriable) Rupee Deposit Scheme. [Notification No. GSR 607(E)9.6.1989]

(ii) In the case of an individual or H.U.F. : Interest on 7% Capital Investment Bonds notified in the Official Gazette by the Central Government before 1.6.2002.

(iii) Interest on such bonds which are notified before 1.6.2002 and arising to :

(a) a non-resident Indian, being an individual owning the bonds, e.g., N.R.I. Bonds, 1988 issued by the State Bank of India; or

(b) any individual owning the bonds by virtue of a nominee or survivor of the non-resident Indian; or

(c) any individual to whom the bonds are gifted by the non-resident Indian.

The above exemption shall be allowed if the prescribed conditions are satisfied.

- (iv) *Interest on Securities held by the Welfare Commissioner, Bhopal Gas Victims, Bhopal in the Reserve Bank of India* : The amount of compensation to be paid to the victims of Bhopal Gas Tragedy has been deposited in the Reserve Bank of India in the form of Central Govt. Securities in the name of the Welfare Commissioner, Bhopal Gas Victims, Bhopal.
 - (v) Interest on deposits with the Reserve Bank of India or with a notified public sector bank, held for the benefit of the victims of the Bhopal gas leak disaster.
 - (vi) Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015 notified by the Central Government.
 - (vii) Interest on bonds (a) issued by a local authority or by a State Pooled Finance Entity and (b) specified by the Central Government by notification, shall be exempt.
 - (viii) Interest received by a non-resident or not-ordinarily resident in India on the deposit made after 31.3.2005 in an Offshore Banking Unit, shall be exempt.
13. **Educational Scholarship** : Scholarships granted to meet the cost of education, whether by government or any other organisation are fully exempt. [Sec. 10(16)]
14. **Allowances of M.P.s, M.L.As and M.L.Cs. :** [Sec. 10(17)]
- (i) Daily allowances (Entire amount is fully exempt);
 - (ii) Any other allowances received by any member of Parliament (Entire amount is fully exempt);
 - (iii) Any constituency allowance received by a member of any State Legislature under any Act or rules made by that State Legislature.
15. **Awards : Any payment made, whether in cash or in kind :** [Sec. 10(17A)]
- (i) as an award instituted in the public interest by the Central Government or any State Government or by any other body and approved by the Central Government in this behalf; or
 - (ii) as a reward by the Central Government or any State Government for such purposes as may be approved by the Central Government in the public interest is fully exempt.
- Under clause (ii) the Central Government has approved the Swatantrata Sainik Pension Scheme, 1980.

Q.13. Elaborate major exempted incomes for the institutions.

Ans. Exempted Incomes for Institutions

Following are some major exempted incomes for the institutions :

1. **Income of a Local Authority** : Following incomes of a *local authority* are exempt :
 - (i) 'Income from House Property', or
 - (ii) 'Capital Gains', or
 - (iii) 'Income from Other Sources', or
 - (iv) From services or business carried on by it within its own jurisdiction, or
 - (v) From the supply of water or electricity outside its jurisdiction. [Sec. 10(20)]

Explanation : 'Local authority' shall mean : (i) Panchayat; or (ii) Municipality; or (iii) Municipal Committee and District Board, legally entitled, to or entrusted by the Government with the control or management of a Municipal or local fund; or (iv) Cantonment Board.

2. **Income of Research Association** : Any income of a research association approved under section 35(1)(ii) or under section 35(1)(iii) is fully exempt. [Sec. 10(21)]

Exemption shall be available to a research association which undertakes scientific research or research in social science or statistical research provided such research association is approved and notified u/s 35(1)(ii) or 35(1)(iii).

3. **Income of News Agency :** The income of a notified news agency set-up in India solely for collection and distribution of news, shall be exempt if the following conditions are satisfied : [Sec. 10(22B)]
 - (i) The news agency applies its income or accumulates it for application solely for collection and distribution of news.
 - (ii) It does not distribute its income in any manner to its members.
4. **Income of Professional Institutes :** Any income (other than 'Income from House Property' or income received for rendering any specific services or income by way of interest or dividends derived from its investments) of an association or institution established in India with the object of control, supervision, regulation or encouragement of the profession of law, medicine, accountancy, engineering, architecture or such other profession as the Central Government may notify from time to time in Official Gazette. [Sec. 10(23A)]

This income is exempt only when the following conditions are satisfied :

 - (i) The association or institution applies its income or accumulates it for application, solely for its object; and
 - (ii) The association or institution is approved for the purpose of this clause by the Central Government.
5. **Income of Regimental Fund or Non-Public Fund :** The income derived by any Regimental Fund or Non-Public Fund established by the armed forces of the Union for the welfare of their past and present members and their dependents is fully exempt. [Sec. 10(23AA)]
6. **Income of a Fund for Welfare of Employees or their Dependents :** Income of a notified fund established for the welfare of employees or their dependents, if such employees are also members of this fund, shall be exempt. [Sec. 10(23AAA)]
7. **Income of Pension Fund set-up by L.I.C. of India or other Insurer :** The income is exempt provided the fund is set-up by : [Sec. 10(23AAB)]
 - (i) the Life Insurance Corporation of India on or after 1st August, 1996, under a pension scheme, or
 - (ii) any other insurer under a pension scheme to which contribution is made by any person for receiving a pension from such fund and which is approved by the Controller of Insurance/the Insurance Regulatory and Development Authority.
8. **Income of Khadi and Village Industries :** The income of an institution established as a trust or society for the purpose of development of Khadi and Village Industries (not for profit) from the production, sale or marketing of Khadi or products of Village Industries is fully exempt. [Sec. 10(23B)]
9. **Income of Khadi and Village Industries Board :** The income of Khadi and Village Industries Board established in a State by or under a State or Provincial Act for the development of Khadi or Village Industries in the State is fully exempt. [Sec. 10(23BB)]
10. **Income of statutory authority for the administration of Public Religious or Charitable Trusts :** The income of any body or authority established under any Act for the administration of any public religious or charitable trusts or endowments (including maths, temples, gurdwaras, waqfs, churches or other places of public

religious ownership or societies for religious or charitable purpose) is fully exempt. It is very clear in this provision that the exemption will not apply to the income of any such trust, endowment or society. [Sec. 10(23BBA)]

11. **Income of the European Economic Community** : Any income of the European Economic Community derived in India by way of interest, dividends or capital gains from investments made out of its funds under a notified scheme is exempt. [Sec. 10(23BBB)]
12. **Income of SAARC Fund** : Any income of the South Asian Association for Regional Co-operation Fund for Regional Projects set-up by the Colombo Plan Declaration shall be exempt. [Sec. 10(23BBC)]
13. Any income of the Insurance Regulatory and Development Authority shall be exempt. [Sec. 10(23BBE)]
14. Any income of the Central Electricity Regulatory Commission shall be exempt. [Sec. 10(23BBG)]
15. Any income of the Prasar Bharati (Broadcasting Corporation of India) shall be exempt. [Sec. 10(23BBH)]
16. **Income of Specified Charitable Funds** : The income of the following funds or trusts is fully exempt : [Sec. 10(23C)]
 - (i) The Prime Minister's National Relief Fund;
 - (ii) The Prime Minister's Fund (Promotion of Folk Art);
 - (iii) The Prime Minister's Aid to Student Funds;
 - (iv) The National Foundation for Communal Harmony;
 - (v) Swachh Bharat Kosh;
 - (vi) Clean Ganga Fund;
 - (vii) The Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund;
 - (viii) Any university or other educational institution existing solely for educational purposes and not for purposes of profit :
 - (a) which is wholly or substantially financed by the Government; or
 - (b) the aggregate annual receipts of such university or educational institution do not exceed one crore rupees; or
 - (c) which may be approved by the Commissioner of Income Tax (Exemptions);
 - (ix) Any hospital or other institution for the reception and treatment of persons suffering from illness or mental defectiveness or for the reception and treatment of persons during convalescence or of persons requiring medical attention or rehabilitation, existing solely for philanthropic purposes and not for purposes of profit :
 - (a) which is wholly or substantially financed by the Government; or
 - (b) the aggregate annual receipts of such hospital or institution do not exceed one crore rupees; or
 - (c) which may be approved by the Commissioner of Income Tax (Exemptions);
 - (x) Any other Fund or Institution established for a charitable purpose and approved by the Commissioner of Income Tax (Exemptions);
 - (xi) Any trust or institution established wholly for public religious purpose or public religious and charitable purpose which is approved by the Commissioner of Income Tax (Exemptions).

However, any anonymous donation shall be included in the total income.

Accumulation of Income : A trust, institution, university, other educational institution, hospital or other medical institution can accumulate its income for the objects for which it is established.

Where more than 15% of income is accumulated the period of accumulation of amount exceeding 15% of its income shall not exceed five years.

Exemption to funds or trust or institution or university etc. Section 10(23C) *w.e.f.* 1.6.2020 (For the Assessment Year 2021-22)

17. Income of Investor Protection Fund from recognised stock exchange

[Sec. 10(23EA)]

The following income of such Fund set-up by recognised stock exchanges in India, either jointly or separately, is exempt :

The income by way of contributions received from **recognised stock exchanges** and the members thereof.

Where any amount standing to the credit of the Fund and not charged to income tax during any previous year is shared, either wholly or in part, with a recognised stock exchange, the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared and shall accordingly be chargeable to income tax.

18. Income of Investor Protection Fund from Commodity Exchanges : Any income, by way of contributions received from **commodity exchanges** and the members thereof, of such Investor Protection Fund set-up by the commodity exchanges in India, either jointly or separately as the Central Government may notify shall be exempt.

[Sec. 10(23EC)]

Where, any amount standing to the credit of the Fund and not charged to income tax during any previous year is shared, either wholly or in part, with a commodity exchange, the whole of the amount so shared shall be deemed to be the income of the previous year in which such amount is so shared and shall accordingly be chargeable to income tax.

19. Any income by way of contributions received from a depository, of such Investor Protection Fund set up by a depository shall be exempt.

Where any amount in the Fund is not charged to income tax during any previous year is shared (wholly or partly) with a depository, the amount so shared shall be deemed to be the income of the previous year in which the amount so shared and chargeable to income tax.

[Sec. 10(23ED)]

The following new clauses are inserted in Sec. 10 *w.e.f.* the Assessment Year 2016-17 :

(A) Any specified income of Core Settlement Guarantee Fund, set-up by a recognised clearing corporation, shall be exempt. [Sec. 10(23EE)]

(B) Any income of an investment fund (other than the income chargeable under the head "Profits and Gains of Business or Profession") shall not be included in the total income of such fund. [Sec. 10(23FBA)]

(C) Any income of a person accruing or arising to, or received by a unitholder of an investment fund, being that proportion of income which is of the nature as income chargeable under the head "Profits and Gains of Business or Profession" shall not be included in the total income of such person. [Sec. 10(23FBB)]

(D) *Income of unit holder from a specified fund to be exempt* : New section 10(23FBC) inserted by the Taxation and other Laws (Relaxation and Amendment of certain provisions) Act, 2020 w.e.f. Assessment Year 2021-22.

Any income (i) accruing or arising to or received by a unit holder from a specified fund or (ii) on transfer of units in a specified fund *Explanation*—for the purpose of this clause the expressions (a) “Specified fund” shall have the same meaning as assigned to it in clause (c) of the explanation to section 10(4D); (b) “Unit” means beneficial interest of an investor in the fund and shall include shares or partnership interests.

[Sec. 10(23FBC)]

(E) Any income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust, shall not be included in total income.

[Sec. 10(23FCA)]

20. **Income of Venture Capital Fund or Venture Capital Company** : Any income of a venture capital company or venture capital fund from investment in a venture capital undertaking shall be exempt.

[Sec. 10(23FB)]

21. **Income of Business Trust** : Income of a Business Trust by way of (i) interest received or receivable from a special purpose vehicle or (ii) w.e.f. 1.4.2021 dividend received or receivable from a special purpose vehicle [w.e.f. Assessment Year 2017-18 upto Assessment Year 2020-21] Dividend referred u/s 1150(7) alone is exempt.

“Special purpose vehicle” means an Indian Company in which the business trust holds specific percentage of shareholding or interest as may be required by the regulations under which such trust is granted registration.

[Sec. 10(23FC)]

“Business trust” means a trust registered as :

(i) an Infrastructure Investment Trust, or

(ii) a Real Estate Investment Trust.

[Sec. 2(13A)]

Q.14. Discuss the concept of ‘Income’.

Ans.

Concept of Income

Income means a monetary income which is derived from definite sources with some sort of regularity or expected regularity. These definite sources of income are : Salaries, Income from House Property, Profits and Gains of Business or Profession, Capital Gains and Income from Other Sources.

There are some other important rules regarding income, which are as under :

1. There should be a definite source of income.
2. An income earned, *whether legally or illegally*, is taxable under the Income Tax Act. The Income Tax Act does not make any distinction between legal and illegal income. However, any expenditure incurred to earn an illegal income is allowed to be deducted out of such income only.
3. It is not necessary that the income should be received regularly and periodically, say, weekly, monthly or quarterly. *Lump-sum receipts can also be income*, provided it is income in view of other factors and considerations.
4. Income should be *received from outside*. In an institution, if the income from subscription from its members exceeds its expenditure on its members the excess cannot be treated as taxable income, because the subscription was received from amongst the members themselves and the excess represents the excess of income over

expenditure incurred for their own benefit or well-being, hence this excess is not received from outside, and will not be income.

Similarly, excess over expenditure, received by a club from facilities provided to members as part of advantages attached to such membership, is not taxable income.

[*CIT vs. Bankipur Club Ltd.* (1997) 226 ITR 97 (SC)]

5. It is not essential that the income must be received *in the form of money*. Receipts in kind or service having money equivalent can also be income.
6. *Temporary or Permanent Income* : Whether the income is temporary or permanent, it is immaterial from the tax point of view.
7. If an assessee has *earned* an income but has not actually received it, it will be treated as the income of the assessee, because he is entitled to receive it.
8. *Reimbursement of expenses* is not income. Reimbursement of actual travelling expenses to an employee is not his income.
9. Where under a legal obligation a charge is created on the income of a person, then to the extent of such charge it will be deducted from his income.
10. *Receipt on account of dharamshala, gaushala, etc.* is not income.
11. *Pin Money* received by wife for her personal expenses and small savings made by a woman out of money received from her husband for meeting household expenses is not her income.
12. *Disputed Income* : Any dispute regarding the title of income will not postpone or held up the assessment of such income. It will be taxed in the hands of the recipient of such income.
13. *Diversion of income vs. the application of income* : Diversion of income means that the income is diverted to some other person under some legal obligation. If after receiving the income it is given to someone else it is the application of income. Similarly, if an income is diverted to some other person voluntarily it is an application of income. Where by an obligation, income is diverted before it reaches the assessee, it is diversion of income and not taxable; but where the income is required to be applied to discharge an obligation after such income reaches the assessee, the same is merely an application of income and tax liability cannot be avoided.
14. Income may be in *plus* or *minus*. Minus income means loss, hence losses are also included in the term 'Income'.

Q.15. Following are the incomes of Shri Anshdeep for the Previous Year 2020-21 :

	₹
1. Income from Salary accrued and received in India (computed)	20,000
2. Profit of a hotel business at Melbourne.	30,000
3. Dividend declared in Perth but received in India	4,000
4. Income from transfer of a long-term capital asset in India	20,000
5. Interest on debentures of a company at Manchester, which was received in India	6,000
6. Interest received from Shri Philip, a non-resident, on the loan provided to him for a business carried on in India	5,000
7. Royalty received in Germany from Shri Amar a resident in India for technical services provided for a business carried on in Germany	20,000

8. Fees from an Indian Company carrying on business at London for technical services rendered at London having been directly deposited by the company in his bank account in India 30,000

Compute Shri Anshdeep's Gross Total ordinary Income for the Assessment Year 2021-22, if he is : (i) Resident, (ii) Not-ordinarily Resident, and (iii) Non-resident.

Sol.

Computation of Gross Total Income
(for the Assessment Year 2021-22)

	Resident	Not-Ordinarily Resident	Non-Resident
	₹	₹	₹
1. Income from Salary accrued and received in India	20,000	20,000	20,000
2. Profit of hotel business at Melbourne	30,000	—	—
3. Dividend declared in Perth but received in India	4,000	4,000	4,000
4. Income from capital gains from the transfer of asset in India	20,000	20,000	20,000
5. Interest on Debentures of a company at Manchester, but received in India	6,000	6,000	6,000
6. Interest received from a non-resident on loan provided to him for a business carried on in India	5,000	5,000	5,000
7. Royalty received in Germany from a resident of India for technical services provided for a business carried on in Germany	20,000	—	—
8. Fees from an Indian Company carrying on business at London for technical services rendered at London directly deposited in a bank account in India	30,000	30,000	30,000
Gross Total Income	1,35,000	85,000	85,000

Multiple Choice Questions

Q.1. When a person is responsible for doing any work under the Income Tax Act and he fails to do it, he is called an :

- (a) Assessee (b) Assessee in default
(c) Both of these (d) None of these

Ans. (b) Assessee in default

Q.2. means the financial year immediately preceding the assessment year.

- (a) Final year (b) Assessment year (c) Previous year (d) None of these

Ans. (c) Previous year

Q.3. The Income Tax Act, was enacted in :

- (a) 1941 (b) 1951 (c) 1961 (d) 1971

Ans. (c) 1961

Q.4. Mr. X has started his business from 2nd Sept., 2019 and does not have any other source of income, his first previous year will start from :

- (a) 1st April, 2011 (b) 2nd September, 2019
(c) Any of these (d) None of these

Ans. (b) 2nd September, 2019

Q.5. In Assessment year, the tax will be calculated at :

- (a) Current year rate (b) Previous year rate
(c) Previous to previous year rate (d) None of these

Ans. (a) Current year rate

Q.6. Assessee means a person whom :

- (a) tax is to be collected (b) TDS is to be deducted
(c) advance tax is collected (d) All of these

Ans. (d) All of these

Q.7. Sale of land is a :

- (a) Capital Receipt (b) Revenue Receipt (c) Both of these (d) None of these

Ans. (a) Capital Receipt

Q.8. Sales of goods is a :

- (a) Revenue Receipt (b) Capital Receipt (c) Both of these (d) None of these

Ans. (a) Revenue Receipt

Q.9. As the income goes up, the slab of income tax rate goes :

- (a) Up (b) Down (c) Moderate (d) Fluctuate

Ans. (a) Up

Q.10. The financial year starts from :

- (a) 1st January to 31st December (b) 1st April to 31st March
(c) 1st October to 30th September (d) 1st July to 31st August

Ans. (b) 1st April to 31st March

Q.11. Person includes :

- (a) AOP (b) BOI (c) Company (d) All of these

Ans. (d) All of the above

Q.12. Income tax is paid by every individual depending on his :

- (a) Citizenship (b) Residential status
(c) Both of these (d) None of these

Ans. (b) Residential status

Q.13. Income tax is a :

- (a) Direct tax (b) Indirect tax (c) None of these (d) Both of these

Ans. (a) Direct tax

Q.14. Income tax is an important :

- (a) Direct tax (b) Indirect tax (c) None of these (d) Both of these

Ans. (a) Direct tax

Q.15. In India, income tax was introduced for the first time in the year by Sir James Wilson.

- (a) 1760 (b) 1860 (c) 1850 (d) 1857

Ans. (b) 1860

Q.16. Any receipt which is of a casual and non-recurring nature is called :

- (a) Formal income (b) Real income (c) Casual income (d) None of these

Ans. (c) Casual income

Q.17. Income tax is collected by :

- (a) State Government (b) Central Government
(c) Semi-Government (d) All of these

Ans. (b) Central Government

Q.18. Assessee includes any person in respect of whom :

- (a) who is liable to pay tax
(b) any person in respect of whom proceedings under the act have been started
(c) any person who is deemed to be an assessee
(d) All of the above

Ans. (d) All of the above

Q.19. The residential status of an Individual can be :

- (a) Resident and Ordinary Resident (b) Resident but not ordinary resident
(c) Non-resident (d) All of these

Ans. (d) All of these

Q.20. Citizenship is the criteria of assessment :

- (a) True (b) False
(c) somewhat agree (d) partially correct

Ans. (a) True

Q.21. An individual is said to be resident in India if he stays for days during the previous year.

- (a) 180 (b) 182 (c) 183 (d) 184

Ans. (b) 182

Q.22. Income received or deemed to be received in India is taxable for :

- (a) ROR (b) RNOR (c) NR (d) All of these

Ans. (d) All of these

Q.23. Gifts received from relatives on the occasion of marriage would be :

- (a) Taxable (b) Exempted (c) Both of these (d) None of these

Ans. (b) Exempted

Q.24. Gifts received from others on the occasion other than marriage would be taxable if the aggregate amount exceeds :

- (a) ₹ 50,000 (b) ₹ 51,000 (c) ₹ 52,000 (d) None of these

Ans. (a) ₹ 50,000

Q.25. As the income goes down, the slab of income tax rate goes :

- (a) Up (b) Down (c) Moderate (d) Fluctuate

Ans. (b) Down

□

UNIT-II

Income From Salaries

SECTION-A (VERY SHORT ANSWER TYPE QUESTIONS)

Q.1. Explain the incomes which are taxable under the head 'salaries'.

Ans. As per section 15, the following incomes are taxable under the head 'Salaries' :

- (i) The salary due from an employer or former employer to an assessee in the previous year, whether paid or not.
- (ii) The salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him.
- (iii) Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income tax for an earlier previous year.

Q.2. Discuss the place of accrual of salary.

Ans. Following points describe the place of accrual of salary :

- (i) If any income taxable under the head 'Salaries' is earned in India, it is deemed to accrue or arise in India.
- (ii) If a person employed in India goes on a leave outside the country and draws his salary for the leave period there, the leave salary shall be deemed to have been earned in India.
- (iii) If a person, after having served in India, retires from service and settles outside India, the pension drawn by him in the foreign country will be deemed to have been earned in India and will be treated as Indian income.
- (iv) In the case of a citizen of India, who is government employee and is transferred to one of its offices outside India will be liable to pay tax to the Indian Government on his salary which he earns and receives outside India. Allowances and perquisites received by him in the foreign country from the Indian Government is exempt for tax.

Q.3. From the following information compute the exempted amount of House Rent Allowance of Mr. Arnav who resides at Meerut :

	I	II	III
	₹	₹	₹
Salary per Month	18,000	12,000	6,000
H.R.A. received per month	2,100	600	1,050
Rent paid per month	1,500	1,920	750

Sol. Computation of Exempted Amount of H.R.A.

	I	II	III
	₹	₹	₹
1. H.R.A. received	2,100	600	1,050
2. Excess of Rent paid over 10% of salary	Nil	720	150

3.	As the accommodation is not situated in specified cities, 40% of salary	7,200	4,800	2,400
	The least of the above three is exempt	Nil	600	150
	In the first case, no amount of H.R.A. is exempt.			
	In the second case, the whole amount of H.R.A. is exempt.			
	In the third case ₹ 1,800 @ ₹ 150 p.m. is exempt.			

Q.4. What do you mean by the term 'perquisites'?

Ans. The term 'perquisite' means any benefit, attached to an office or position in addition to salary or wages. Perquisite denotes a personal advantage. It may be given in cash or in kind. If it is given in kind it should be capable of being measured in terms of money. For income tax purpose we limit the scope of perquisites to the benefits received in kind and which are convertible in terms of money. Perquisites received in cash are termed as allowances for income tax purposes.

Q.5. A company took a house on rent and allotted it to its an employee. From the following information find out the value of perquisite of accommodation :

(i) Rent paid for the year	60,000
(ii) Salary	5,00,000
(iii) Cost of furniture provided in the house	60,000
(iv) Rent charged from employee's salary per month	1,000

Sol. Valuation of accommodation :

(i) 15% of salary of actual rent, whichever is less	60,000
(ii) Add : 10% of the cost of furniture	6,000
	66,000
(iii) Less : Rent charged from employee	12,000
Value of Concessional Accommodation	54,000

Q.6. Shri Sunil Kumar is District Magistrate of Meerut. He is living in a furnished bungalow provided by the government free of rent. His salary is ₹ 1,20,000 per month. The rent of the unfurnished bungalow as per Govt. rules is ₹ 2,000 per month but it's fair rental value is ₹ 17,500 per month. He is provided furniture costing ₹ 1,70,000. Find out the value of rent-free house as a perquisite for the purposes of income tax.

Sol. Shri Sunil Kumar is a government employee, hence the value of the perquisite of rent-free unfurnished house will be as per Government rules, i.e., ₹ 2,000 per month and 10% p.a. of the cost of the furniture etc. will be added for furnishings. Thus,

Rental value of rent-free unfurnished house (as per Govt. Rules)	24,000
Add: 10% of ₹ 1,70,000 for furnishings	17,000
Value of Rent-free Furnished House	41,000

Q.7. An employer has taken a house on rent @ ₹ 15,000 p.m. He allotted half the house of Mr. Arnav and the other half to Mr. Brijesh for residential purposes. The annual salary of Mr. Arnav is ₹ 3,00,000 and Mr. Brijesh ₹ 7,00,000. Find out the value of rent-free house for Mr. Arnav and Mr. Brijesh.

Sol. **Valuation of Rent-free House**

Mr. Arnav:
Rent of half house ₹ 90,000

Salary ₹ 3,00,000

Value of rent-free house = 15% of salary of rent paid by the employer for his portion, whichever is less = ₹ 45,000.

Mr. Brijesh :

Rent of half house ₹ 90,000

Salary ₹ 7,00,000

Value of rent-free house = 15% of salary or rent paid by the employer for his portion, whichever is less = ₹ 90,000.

Q.8. What do you mean by provident fund?

Ans. The word 'provident' means to provide for the future, hence this fund is to provide for the future. This fund is credited by an amount deducted from the salary of the employee every month at a certain rate and the employer also makes his own contribution to this fund. These contributions are invested to earn interest, which is also credited to the employee's provident fund account.

Q.9. What is meant by public provident fund?

Ans. The Public Provident Fund Scheme was started from 1st July, 1968. Every individual (including a salaried employee) can subscribe to this fund any amount being not less than ₹ 500 and not more than ₹ 1,50,000 in a year. One can also deposit money in installments which cannot exceed 12 in a year. An individual can open a public provident fund account either on his own behalf or on behalf of a minor of whom he is the guardian. However, an individual can open only one account in his own name. An account under this scheme can be opened at a branch of the State Bank of India or its subsidiaries or at a branch of any of the 13 nationalized banks authorised for this purpose by the Central Government.

Q.10. Mr. A. Kumar is a Government employee. During the year 2020-21 he got ₹ 60,000 p.m. as salary, ₹ 4,000 p.m. as dearness allowance, car allowance ₹ 500 p.m. and rent-free house of the value of ₹ 1,000 p.m. He was also given entertainment allowance of ₹ 400 p.m. with effect from 1st Jan. 2016 when he was promoted and that he did not spend any amount out of this for official purposes. Calculate the amount deductible u/s 16(ii).

Sol. Since Mr. A. Kumar is a government employee, he will get deduction u/s 16(ii) irrespective of the fact that he did not spend any amount out of this for official purposes. The amount of deduction allowable will be the least of the following :

(i) $\frac{1}{5}$ of basic salary of ₹ 7,20,000 = ₹ 1,44,000, or

(ii) ₹ 5,000, or

(iii) ₹ 4,800 being the actual amount received.

The least of all the above amount, viz., ₹ 4,800 will be allowed as deduction u/s 16(ii). No extras will be included in salary for this purpose.

Q.11. Abhay gets ₹ 18,000 per month as salary and dearness allowance at 10 per cent of the salary. He is getting entertainment allowance of ₹ 8,000 p.a. During the previous year ended 31st March, 2021, he received a bonus of three months' salary. He is also provided with a rent-free house (unfurnished) in a town (whose population is less than four lakh) whose fair rent is ₹ 5,000 per month. Find out his income under the head 'Salaries' for the Assessment Year relevant to the previous Year 2020-21.

Sol. Computation of Income under the Head Salaries
(for the Assessment Year 2021-2022)

		₹
Salary		2,16,000
Dearness Allowance		21,600
Bonus		54,000
Entertainment Allowance		8,000
Value of Rent-free house		20,850
	Gross Salary	3,20,450
<i>Less</i> : Standard deduction		<u>50,000</u>
	Income under the Head Salaries	<u>2,70,450</u>

Note : Value of Rent-free house will be 7.5% of salaries. Hence, 7.5% of (Salary + Bonus + Entertainment Allowance) = 7.5% of ₹ 2,78,000 = ₹ 20,850.

Q.12. What do you mean by the term gratuity?

Ans. Gratuity is a payment made by the employer to an employee in appreciation of the past services rendered by the employee. Gratuity can either be received by (a) the employee himself at the time of this retirement, or (b) the legal heir on the event of the death of the employee. Gratuity received by an employee on his retirement is taxable under the head 'Salaries' whereas gratuity received by the legal heir of the deceased employee shall be taxable under the head "Income from Other Sources". However in both the above cases, gratuity is exempt upto a certain limit under section 10(10).

Q.13. What is meant by the term 'pension'?

Ans. Whatever pension is received by an employee (Government or Non-government) after retirement, it is chargeable under the head 'Salaries'.

If a person after serving in India, retires and settles in a foreign country, receives a pension on account of such service, such pension shall be deemed to accrue and arise in India and chargeable under the head 'Salaries' even if he becomes non-resident in India.

Q.14. What do you mean by earned leave salary?

Ans. As per service rules, an employee gets different leaves. An employee has to earn leave in the first instance and only when he has leave to his credit he can apply for leave. If a leave (standing to his credit) is not taken within a year, it may lapse or it may be encashed or it may be accumulated. The accumulated leaves standing to the credit of an employee may be availed by the employee during his service time or such leaves may be encashed at the time of retirement or leaving the job. Encashment of leave standing to one's credit is known as "leave salary".

Q.15. Mr. Badal is employed as a clerk in a Textile Mill at Meerut since 1st October, 2007. He is getting ₹ 12,000 p.m. as salary and ₹ 2,400 p.m. as dearness allowance since 1st January, 2017. His services were terminated on account of retrenchment of employees on 1st July, 2020 and he was paid ₹ 1,92,000 as compensation. Compute his exempted amount of compensation for the Assessment Year 2021-22.

Ans. Computation of Exempted Amount of Compensation
u/s 10 (10B)

(for the Assessment Year 2021-22)

The least of the following is exempt:

1. Amount received

₹
1,92,000

2. 15 days' average pay for every completed year of service or part thereof in excess of 6 months

In this case six and a half month salary *i.e.*, ₹ 14,400 × 13 ÷ 2

93,600

3. Maximum limit

5,00,000

Exempted amount

93,600

Q.16. Describe the term annual value of a house property.

Ans. The annual value of a house property let out shall be deemed to be:

- (i) the sum for which the property might reasonably be expected to be let from year to year; or
- (ii) where the property or any part of property is let and the actual rent received or receivable by the owner is in excess of the sum referred to in (a), the amount of rent received for receivable; or
- (iii) where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in (a), the amount so received or receivable.

Q.17. LIC of India sanctioned a loan of ₹ 16,00,000 to Mr. Ganesh @ 12% p.a. for the construction of a house. The loan was given in installments as under :

I. Installment on 1.7.2014 ₹ 5,00,000

II. Installment on 1.4.2016 ₹ 6,00,000

III. Installment on 1.8.2016 ₹ 5,00,000

The construction of the house completed in November, 2016 and it is self-occupied for residential purposes. Determine the amount of interest deductible u/s 24 for the Assessment Year 2021-22. No part of the loan repaid till date.

Sol. Computation of Deductible Interest u/s 24
(for the Assessment Year 2021-22)

	₹
Interest for pre-construction period from 1.7.2014 to 31.3.2016	1,05,000
Interest for the Previous Year 2020-21 on ₹ 16,00,000 taken on or after 1.4.1999	1,92,000
Interest deductible :	
1/5 of ₹ 1,05,000 for pre-construction period	21,000
Interest for the Previous Year 2020-21	1,92,000
	<u>2,13,000</u>
Maximum deduction permissible	<u>2,00,000</u>

Q.18. On the basis of the following information determine the annual value of the house:

1. Half of the house is self-occupied;
2. Half of the house let-out for ₹ 7,500 p.m.;
3. Municipal value of the house as ₹ 1,50,000 on which tax is paid @ 20%.

Ans. Computation of Annual Value of the House

	₹	₹
(i) A.V. of self-occupied portion		Nil
(ii) G.A.V. of let-out portion (Expected rent ₹ 75,000 or Actual rent ₹ 90,000, whichever is more)	90,000	
Less : Municipal tax paid 1/2	<u>15,000</u>	<u>75,000</u>
	Annual Value	<u>75,000</u>

Q.19. A deduction of ₹ 50,000 was allowed to Mr. Deepak in the Assessment Year 2017-18 relating to unrealised rent. During the Previous Year 2020-21 he realised ₹ 40,000 from the tenant and spent ₹ 10,000 for this realisation. Determine the amount assessable under the head 'Income from House Property' for the Assessment Year 2021-22.

Would your answer be different if Mr. Deepak had disposed of the house in 2019-20?

Ans. Where a deduction has been allowed in respect of unrealised rent, any amount realised in a later year shall be assessable under the head 'Income from House Property'. Any expenditure incurred for realisation of unrealised rent is not deductible. However, 30% of the amount realised shall be allowed as a standard deduction. Hence, ₹ 40,000 less ₹ 12,000 = ₹ 28,000 assessable in the Assessment Year 2021-22.

If the assessee is not the owner of the property at the time of realisation of unrealised rent, event then the amount is assessable in his hands.

Q.20. Subhash owned a house property at Meerut which was occupied by him for the purpose of his residence. He was transferred to Mumbai in June, 2020 and therefore he let out the property with effect from 1st July, 2020 on a monthly rent of ₹ 2,500. The corporation tax payable in respect of the property @ 20% was ₹ 6,000 of which 50 per cent was paid by him before 31.3.2021. Interest on money borrowed for the construction of the property amounted to ₹ 20,000. Compute the income from house property for the Assessment Year 2021-22.

Sol. Computation of Income from House Property

(for the Assessment Year 2021-22)

	₹	₹
(a) Expected rent ₹ 30,000		
(b) Actual rent ₹ 22,500		
G.A.V. (a) or (b), whichever is greater		30,000
Less : Municipal tax paid		<u>3,000</u>
	Annual Value	27,000
Less : 30% of A.V.	8,100	
Interest on loan	20,000	28,100
	Loss from House Property	<u>(-) 1,100</u>

Q.21. What do you mean by the term 'business'?

Ans. Business means the purchase and sale or manufacture of a commodity with a view to make profit. It includes any trade, commerce or manufacturing or any adventure or concern in the nature of trade, commerce or manufacture. It is not necessary that there should be a series of transactions in a business and that it should be carried on permanently. Neither repetition

nor continuity of similar transactions is necessary. Profit of an isolated transaction is also taxable under this head, provided that it is a venture in the nature of business or trade. In this connection, it is important that the intention of purchase or manufacture should be to sell at a profit.

Q.22. What is meant by term 'profession'?

Ans. Profession means the activities for earning livelihood which requires intellectual skill or manual skill, *e.g.*, the work of lawyer, doctor, auditor, engineer and so on, are in the nature of profession. The profession includes vocation. Vocation means activities which are performed in order to earn a livelihood, *e.g.*, brokerage, insurance agency, music, dancing, etc. As the rules for the assessment of business, profession or vocation are the same, there is no importance of making any distinction between them for income tax purposes.

Q.23. Arnav Ltd. is engaged in providing telecommunication services in India. For this purpose, it enters into an agreement on 1.4.2019 with the Department of Telecommunication, Government of India. As per the agreement Arnav Ltd. is given a licence for providing telecommunication services in M.P. State for a period of 10 years from 1.4.2019. Licence fees are fixed at ₹ 18 lakh payable in two equal installments on 10.4.2019 and 10.4.2020. Assuming that the two installments are paid by Arnav Ltd. on due dates, find out the admissible deduction u/s 35ABB for the previous year 2020-21. The business commenced during the previous year 2019-20.

Sol. The business commenced during the previous year 2019-20 :

Ist Instalment paid during the previous year 2019-20 ₹ 9,00,000

IInd Instalment paid during the previous year 2020-21 ₹ 9,00,000

Duration of licence 10 years

Deduction for the previous year 2020-21:

1/10th of ₹ 9,00,000

₹ 90,000

1/9th of ₹ 9,00,000

1,00,000

Deduction allowable

1,19,000

Q.24. Discuss the basis of valuation of inventories.

Ans. The inventory shall be valued on the basis of cost or market price, whichever is less. It shall also include the amount of any tax, duty, cess or fees paid or liability incurred for the same under any law in force.

Where an assessee converts this capital assets into stock in trade and starts dealing in them the value of such stock will be the market value as on the date of their conversion into stock in trade and not original cost.

However, such conversion shall be a transfer u/s 2(47) and liable to pay tax under the head 'Capital Gains'.

Q.25. Aman, a truck operator assessee owns two heavy goods vehicles (gross weight 15 tons each) for 9 months 14 days and 7 light goods vehicles for 7 months 23 days, during the previous year 2020-21. He did not keep any accounts for freight receipts and expenses. Compute his income from Business u/s 44AE of the Income Tax Act.

Sol. The assessee is not owning more than 10 vehicles, hence, the income shall be presumed as under:

- (i) Heavy goods vehicles : Income is presumed ₹ 1,000 per ton of gross weight of the vehicle p.m. or part of a month per vehicle :

$$2 \times 1,000 \times 15 \times 10 = ₹ 3,00,000$$

- (ii) Light goods vehicles :

Income is presumed ₹ 7,500 p.m. or part of a month per vehicle

$$7 \times 7,500 \times 8 = ₹ 4,20,000$$

Income u/s 44AE (₹ 3,00,000 + ₹ 4,20,000) = ₹ 7,20,000.

Q.26. Arnav, a businessman is eligible to compute his income under section 44AD.

From the following information compute his business income: ₹

- | | |
|--|-------------|
| 1. Sale by electronic clearing system through a bank | 1,00,00,000 |
| 2. Other Sale | 80,00,000 |

Sol. Computation of Business Income u/s 44 AD

	₹
1. On sale by electronic clearing system presumed income 6% of sale	6,00,000
2. On other sale presumed income 8% of sale	6,40,000
Business Income	<u>12,40,000</u>

Q.27. What do you mean by depreciation?

Ans. Depreciation means a decrease in the value of assets by wear and tear, caused by their use in the business over a period of time. Its cost is spread over its anticipated life by charging depreciation every year against the profits of the business.

SECTION-B (SHORT ANSWER TYPE) QUESTIONS

Q.1. Give the meaning of term 'salary' as per Income Tax Act.

Ans. Meaning of Salary

Salary includes :

- (i) wages;
 - (ii) any annuity or pension;
 - (iii) any gratuity;
 - (iv) any fees, commission, perquisites or profit in lieu of or in addition to any salary or wages;
 - (v) any advance of salary, but not loan for purchasing a car, cycle, scooter or a house, etc.
 - (vi) any payment received by an employee in respect of any period of leave not availed of by him.
- [Note : Encashment of earned leave at the time of retirement whether on superannuation or otherwise is exempt subject to the provisions of Sec. 10(10AA).]
- (vii) the annual accretion to the balance at the credit of any employee participating in a recognised provident fund *i.e.*, employer's contribution in excess of 12% of the employee's salary and interest on the provident fund in excess of 9.5% (*w.e.f.* the Assessment Year 2002-03) rate;
 - (viii) taxable portion of the transferred balance;
 - (ix) the contribution made by the Government or other employer, in the previous year, to the account of an employee, under a pension scheme notified by the Central Government.

Q.2. Explain the different forms of salaries.

Ans. Different Forms of Salary

1. **Leave Salary :** It is also called encashment of the earned leave. If an employee does not avail his earned leave and receives payment in respect of any period of leave, while he continues to remain in service, it is taxable in full.
If he encashes it after retirement or leaving the job, it is exempt up to a specified limit.
2. **Death-cum-retirement Gratuity :**
 - (a) **In the case of Government Employees :** Any death-cum-retirement gratuity received by all categories of Government employees or employees of a local authority is exempt from income tax in full.
 - (b) **In the case of non-government employees :** It is exempt up to a specified limit.
3. **Pension :**
 - (i) Whatever pension is received by an employee (Government or non-government) after retirement, it is chargeable under the head "Salaries".
 - (ii) **Other Foreign Pension :** If the pension is received in India by persons living in India for services rendered abroad it will be taxable on receipt basis. If it is received outside India and then remitted to India it will be taxable in the case of ordinarily residents only.
 - (iii) **Salary and Pension from U.N.O. :** Salary and pension received from the United Nations Organization is totally exempt in India.
 - (iv) **Pension of Gallantry Awardee :** Pension received by an individual who has been in service of the Central or State Government and has been awarded 'Param Vir Chakra' or 'Mahavir Chakra' or 'Vir Chakra' or such other gallantry award as the Central Government may notify shall be exempt.
Commuted Value of Pension : It is exempt up to a specified limit.
4. **Transferred Balance :** When an unrecognised provident fund is recognised for the first time, the balance standing to the credit of employee's P.F. A/c at the time of its recognition is called 'Transferred Balance'.

Taxable Portion of the Transferred Balance : The taxable portion of the transferred balance of the employee will be the aggregate of annual accretions chargeable to tax for each year of the existence of unrecognised provident fund deeming this fund to be recognised from the very beginning. This annual accretion forms part of the transferred balance of the employee.

Q.3. What are taxable allowances?

Ans. Meaning of Taxable Allowances

Following are some various taxable allowances :

1. **Dearness Allowance and Dearness Pay :** Dearness allowance is paid to employees to compensate for the rise in the price level. This amount is included in income under the head 'Income from Salaries'.
Dearness Pay : When the whole or part of dearness allowances is converted in dearness pay, it becomes a part of basic salary.
Dearness allowance as per terms of employment : When dearness allowance is given as per terms of employment, it is also treated as part of basic salary.

When Dearness allowance is given under the terms of employment it is included in salary for purposes of determining the exemption limits of house rent allowance, recognised provident fund, gratuity and for determining the value of a rent-free house and is also taken into account for the purposes of retirement benefits.

2. **City Compensatory Allowance** : It is fully taxable.
3. **Fixed Medical Allowance** : It is fully taxable.
4. **Tiffin Allowance** : It is given for lunch and refreshments to the employees. It is also called Meal Allowance and Refreshment Allowance. It is fully taxable.
5. **Servant Allowance** : It is fully taxable even if it is given to a low paid employee, not being an officer, *i.e.*, it is taxable for all categories of employees.
6. **Non-practicing Allowance** : It is generally given to those medical doctors who are in government service and they are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.
7. **Hill Allowance** : It is given to employees working in hilly areas on account of the high cost of living in hilly areas as compared to plains. It is fully taxable if the place is located at less than 1,000 metre height from sea level.
8. **Warden Allowance and Proctor Allowance** : These allowance are given in educational institutions for working as Warden of the hostel and/or working as Proctor in the institution. These allowances are fully taxable.
9. **Deputation Allowance** : When an employee is sent from his permanent place of service to some other place or institution or organization on deputation for a temporary period, he is given this allowance. It is fully taxable.
10. **Overtime Allowance** : When an employee works for extra hours over and above his normal hours of duty he is given overtime allowance as extra wages. It is fully taxable.
11. **Other Allowances** : There may be several other types of allowances, for example, Family Allowance to armed personnel while on the field without family. Project Allowance, Marriage Allowance, Rural Allowance, Telephone Allowance, Education Allowance, Dinner Allowance, Health Allowance, Holiday Allowance, Special Qualification Allowance, etc. These are taxable unless specifically exempted.

Q.4. A resident employee is getting the following special allowances besides salary. He is working in an area which is at a height of more than 9,000 feet in the State of Jammu & Kashmir and which is also covered by Serial No. 1(I) and Category A of Serial No. 2 of the notification issued under section 10(14)(ii). Compute the taxable amount of these allowances :

	₹
1. Climate Allowance	700 p.m.
2. Snow Bound Area Allowance	300 p.m.
3. Disturbed Area Allowance	800 p.m.
4. Border Area Allowance	600 p.m.
5. His two children are studying in Meerut and are living in the hostel. For the reimbursement of their expenses, he is getting Hostel Allowance	800 p.m.
6. For reimbursement of expenses on the education of both the children, he is getting allowance	300 p.m.

Sol. Computation of Taxable Amount of Special Allowances

	₹	₹
1. Climate Allowance	8,400	
2. Snow Bound Area Allowance	3,600	
	In serial No. 1(I)	
	<u>12,000</u>	
Less : Maximum amount exempted is @ ₹ 800 p.m.	9,600	2,400
3. Disturbed Area Allowance	9,600	
4. Border Area Allowance	7,200	
	<u>16,800</u>	
Less : Maximum amount exempted in Category A of Serial No. 2 is @ ₹ 1,300 p.m.	15,600	1,200
5. Hotel allowance (Exempt up to ₹ 300 p.m. per child)		2,400
6. Education Allowance (Exempt up to ₹ 100 p.m. per child)		<u>1,200</u>
	Taxable Amount of Special Allowances	<u>7,200</u>

Q.5. Ajay borrowed ₹ 1,00,000 on 1.5.2020 from his employer to purchase a car. He started repayment of loan w.e.f. 1.6.2020 @ ₹ 1,000 p.m. In the following circumstances determine the taxable amount of interest for the Assessment Year 2021-22 assuming that the rate of interest on car loan charged by the State Bank of India is 10% p.a. :

(i) The employer does not charge any interest on a loan;

(ii) The employer charges interest @ 5% on the maximum outstanding monthly balance.

Sol. Computation of Taxable Amount of Interest

(for the Assessment Year 2021-22)

(i) Date	Balance ₹
31-05-2020	1,00,000
30-06-2020	99,000
31-07-2020	98,000
31-08-2020	97,000
30-09-2020	96,000
31-10-2020	95,000
30-11-2020	94,000
31-12-2020	93,000
31-01-2021	92,000
28-02-2021	91,000
31-03-2021	90,000
	<u>10,45,000</u>

Interest on ₹ 10,45,000 @ 10% for one month = ₹ 8,708

(ii) Interest are calculated in (i)

₹ 8,708

Less : Interest charged from Ram @ 5%, i.e., half of ₹ 8,708

₹ 4,354

Taxable Amount of Interest

₹ 4,354

Q.6. What are included in profits in lieu of salary? What are its exceptions?

Ans. Profits in Lieu of Salary

Profits in lieu of salary include the following :

1. The amount of any compensation due to or received by an assessee from his employer or former employer in connection with the termination of his employment or the modification of the terms and conditions relating thereto.

2. Any payment due to or received by an assessee from an employer or a former employer. Where an employer gives to his employee any sum by way of personal gift and not in appreciation of his services, it is not taxable in the hands of the employee.
3. Any payment made from an unrecognised provident fund or other fund will be included only to the extent of employer's contributions and interest thereon. Interest on employee's own contribution is also taxable but it will be taxed under the head 'Income from Other Sources' and not as salary income.
4. Any payment received under a Keyman Insurance Policy including the amount of bonus.
5. Any amount due or received (whether in a lump sum or otherwise) by an assessee from any person :
 - (a) before joining any employment with that person; or
 - (b) after cessation of his employment with that person.

Exceptions of Profits in Lieu of Salary

Payments made under clauses (10), (10A), (10B), (10C), (11), (12), (13), (13A) of section 10 will not be included in profits in lieu of salary. These payments are as under :

- (i) Death-cum-retirement Gratuity.
- (ii) Commuted Value of Pension.
- (iii) Compensation.
- (iv) At the time of voluntary retirement from a public sector company, or a local authority or a co-operative society or a university, etc., any amount received according to Central Government Scheme.
- (v) Payment from Statutory Provident Fund.
- (vi) Payment from Recognized Provident Fund.
- (vii) Payment from Approved Superannuation Fund covered by Sec. 10(13). However, any other payment from this fund shall form part of profits in lieu of salary.
- (viii) House Rent Allowance.

Q.7. What are the various types of provident fund?

Ans. Types of Provident Fund

These are of four following types :

1. **Statutory Provident Fund** : It is that provident fund to which the Employees Provident Funds and Miscellaneous Provisions Act, 1925 applies. Generally, this provident fund is maintained by Government or Semi-Government offices, like local authorities, universities, other recognised educational institutions, statutory corporations and nationalized banks, etc.
2. **Recognised Provident Fund** : It is a fund to which the Employees Provident Funds and Miscellaneous Provisions Act, 1925 applies. There is one more alternative also. The fund which is not established under Employees Provident Fund Act of 1952 has to expressly recognised by the Chief Commissioner or Commissioner of Income Tax. Generally, this fund is maintained by scheduled banks, factories and several business houses. Thus, this fund is maintained by private sector organisations.
3. **Unrecognised Provident Fund** : It is that provident fund which is neither statutory nor recognised. Any institution or organization can maintain this fund. It is approved

by the Provident Fund Commissioner but not by the Commissioner of Income Tax. This is maintained in private sector organizations.

4. **Public Provident Fund :** The Public Provident Fund Scheme was started from 1st July, 1968. Every individual (including a salaried employee) can subscribe to this fund any amount being not less than ₹ 500 and not more than ₹ 1,50,000 in a year. One can also deposit money in installments which cannot exceed 12 in a year. An individual can open a public provident fund account either on his own behalf or on behalf of a minor of whom he is the guardian. However, an individual can open only one account in his own name. An account under this scheme can be opened at a branch of the State Bank of India or its subsidiaries or at a branch of any of the 13 nationalized banks authorised for this purpose by the Central Government.

- Q.8. Smt. Manju is drawing a monthly salary of ₹ 20,000 and entertainment allowance of ₹ 3,500 per month from a Ltd. Co. She is also getting conveyance allowance of ₹ 1,200 per month, a bonus equal to two months' salary and commission equal to one month's pay. During the previous year, she paid ₹ 2,000 as Employment Tax.**

She is provided with a rent-free furnished house by the company at Meerut. The company paying ₹ 90,000 p.a. as the rent of this house and ₹ 8,700 p.a. for furniture and fittings. The electric and water charges amounting to ₹ 18,000 are also borne by the company in respect of this house.

She is also provided with lunch by the company during working hours at work place. The cost of which is ₹ 80 per meal for 300 days during the previous year.

The company recovered ₹ 20 per meal from her.

From the above information calculate Smt. Manju taxable income from salary for the Assessment Year 2021-22.

Sol. Computation of Taxable Income from Salary
(for the Assessment Year 2021-22)

	₹
Salary	2,40,000
Bonus	40,000
Commission	20,000
Entertainment Allowance	42,000
Value of rent-free house	60,000
Electric and water charges paid by the company	18,000
Lunch—(₹ 80 – 20 – 50) × 300	3,000
	Gross Salary 4,23,000
Less : (i) Standard deduction	50,000
(ii) Employment Tax	2,000
	Taxable Income from Salary 3,71,000

Note : Value of rent-free house is determined as under :

15% of salary (i.e., 15% of ₹ 2,40,000 + 40,000 + 20,000 + 42,000) or ₹ 90,000 whichever is less

51,300

Add : Actual hire charge paid for furniture, etc.

8,700

₹ 60,000

Q.9. Mr. Hitesh gets a salary of ₹30,000 per month. He also dearness allowance @ 10% of the salary, house rent allowance of ₹5,000 per month and proctor's allowance of ₹1,000 per month. During the Previous Year 2020-21, he was out of India for three months and the salary and allowances for this period were paid to him abroad. He was not paid any proctor's allowance while he remained out of India. He paid ₹4,000 per month as the rent of the house occupied by him for his residence. He also owned a scooter which he used for the purpose of his employment in India for which he did not get any conveyance allowance. Find out his income from salary for the Assessment Year 2021-22.

Sol.

Computation of Income from Salary

(for the Assessment Year 2021-22)

Salary for the year	₹	3,60,000
Dearness Allowance		36,000
House Rent Allowance		48,000
Proctor's Allowance for 9 months		9,000
	Gross Salary	4,53,000
<i>Less</i> : Standard deduction		50,000
	Income from Salary	4,03,000

Notes : 1. His income from salary for the Previous Year 2020-21 will be taken for full 12 months and not for nine months only.

2. House Rent allowance :

The least of the following is exempt :

(i) HRA received	₹	60,000
(ii) Rent paid-10% of Salaries (₹ 48,000 – 36,000)		12,000
(iii) 40% of Salaries		1,44,000
Taxable HRA (₹60,000 – 12,000)		48,000

3. No deduction will be allowed regarding the scooter.

Q.10. From the following information compute the taxable income under the head 'Salaries' of Shri Navneet, who is working as a driver with a transport company at Sikkim for the Assessment Year 2021-22 :

(i) Salary ₹ 20,000 p.m.

(ii) Dearness allowance ₹ 1,500 p.m.

(iii) Bonus equal to one month's pay.

(iv) Remote locality allowance ₹ 1,500 p.m.

(v) Allowance to meet his personal expenses while on duty ₹ 3,000 p.m.

(vi) Children education allowance ₹ 195 p.m. (For three children @ 65 p.m. per child)

(vii) One son of Shri Navneet lives in a hostel for studies and the employer pays ₹ 400 p.m. to meet hostel expenditure.

(viii) Entertainment allowance ₹ 450 p.m.

Sol. **Computation of Taxable Income under the Head Salaries**

(for the Assessment Year 2021-22)

(i) Salary	₹	2,40,000
(ii) Dearness Allowance		18,000
(iii) Bonus		20,000

(iv)	Remote Locality Allowance	18,000	
	Less : Exempt u/s 10(14)(ii) up to ₹ 1,300 p.m. as Sikkim falls in Area B	<u>15,600</u>	2,400
(v)	Personal Expenses Allowance	36,000	
	Less : Exempt u/s 10(14)(ii) 70% of the allowance or ₹ 10,000 p.m., whichever is less	<u>25,200</u>	10,800
(vi)	Children Education Allowance received (65 × 12 × 3)	2,340	
	Less : Exempt u/s 10(14)(ii) up to ₹ 100 per child for a maximum of two children (65 × 12 × 2)	<u>1,560</u>	780
(vii)	Hostel Expenses	4,800	
	Less : Exempt u/s 10(14)(ii) at ₹ 300 p.m. per child for a maximum of two children	<u>3,600</u>	1,200
(viii)	Entertainment Allowance		5,400
		Gross Salary	<u>2,98,580</u>
	Less : Standard deduction		50,000
		Taxable Income under the Head Salaries	<u>2,48,580</u>

Q.11. Arnab Chaudhary is in receipt of a salary of ₹ 24,000 per month, 15 per cent of which he contributes to a provident fund to which his employer contributes 14 per cent. Arnab is provided with a rent-free house by the employer in Mumbai. He also received from his employer ₹ 32,000 as a bonus. The amount of interest credited to his provident fund at 10 per cent per annum is ₹ 2,000.

Ascertain his taxable salary for the Assessment Year 2021-22 if the provident fund in question is (a) a provident fund to which the Provident Fund Act, 1925 applies, (b) a Recognised Provident Fund.

Sol. Computation of Taxable Salary
(for the Assessment Year 2021-22)

(a)	Provident Fund to which the P.F. Act, 1925 applies :		₹
	Salary		2,88,000
	Bonus		32,000
	Value of rent-free house (15% of salary ₹ 3,20,000)		48,000
		Gross Salary	<u>3,68,000</u>
	Less : Standard deduction		50,000
		Taxable Salary	<u>3,18,000</u>
(b)	Recognised Provident Fund :		₹
	Salary		2,88,000
	Bonus		32,000
	Employer's contribution in excess of 12% of salary		5,760
	Interest on R.P.F. in excess of 9.5%		100
	Value of rent-free house (15% of salary ₹ 3,20,000)		48,000
		Gross Salary	<u>3,73,860</u>
	Less : Standard deduction		50,000
		Taxable Salary	<u>3,23,860</u>

Q.12. The following are the particulars of the income of Mr. Ankush Jhajj for the Previous Year ended on 31st March, 2021 :

(i) Salary—₹ 45,000 p.m.

(ii) Bonus Equal to Two Months' Pay.

- (iii) Dog Allowance—₹ 750 p.m.
 (iv) Special Allowance—₹ 600 p.m.
 (v) Employee's Contribution to a Recognised Provident Fund @ 15% of Salary.
 (vi) Employer's Contribution to the Fund @ 15% of the Salary.
 (vii) Interest credited to the provident fund @ 9.5% p.a. is ₹ 28,000.
 (viii) He is provided with free lunch in the office. The cost per meal is ₹ 30.
 (ix) The employer has given him a small car which he uses for personal and official purposes. He meets the expenses for the personal purpose from out of his pocket.
 Compute the income from salaries of Mr. Ankush Jhaji for the Assessment Year 2021-22.

Sol.

Computation of Income from Salaries
(for the Assessment Year 2021-22)

	₹
Salary	5,40,000
Bonus	90,000
Dog Allowance	9,000
Special Allowance	7,200
Employer's Contribution to R.P.F. in excess of 12% of Salary	16,200
Lunch—Exempt (Cost does not exceed ₹ 50 per meal)	—
Car @ ₹ 600 p.m.	7,200
	Gross Salary 6,69,600
Less : Standard deduction	50,000
	Income from Salaries 6,19,600

- Q.13. Compute income from salary of Shri Aman Singh for the Previous Year ending 31st March, 2021 from the following details :**
- (i) Salary ₹ 27,500 per month and dearness allowance 60% of salary.
 (ii) The employer provided him a small motor car for official and personal use. Expenses are borne by the employer. This facility is provided to him from 1st August, 2020. Prior he used the car for commuting between residence and office and official works.
 (iii) Unfurnished rent-free house at Bhopal fair rent ₹ 36,000 annually and the employer is owner.
 (iv) He contributes to R.P.F. 15%. The employer's contribution is also 15%. ₹ 5,600 interest was credited to the fund at the rate of 14%.
 (v) The employer provided him free telephone facility at his residence and bills paid by the employer during the previous year ₹ 3,600.
 (vi) He is provided free meal, such a facility is given for 284 days during the previous year. The cost per meal is ₹ 65.
 (vii) Free use of health club facility provided by the company and cost of such facility is ₹ 600 p.m. This facility is available for each employee of the company.
 (viii) The employer deducted ₹ 15,000 as income tax and ₹ 2,500 professional tax from his salary.

Sol.

Computation of Income from Salary
(for the Assessment Year 2021-22)

	₹
1. Salary	3,30,000
2. D.A.	1,98,000
3. Car (₹ 1,800 × 8)	14,400
4. Unfurnished Rent free house 15% of ₹ 3,30,000 (Assumed population more than 25 lakh)	49,500
5. Employer's contribution to R.P.F. excess over 12%	9,900
6. Interest on R.P.F. excess over 9.5%	1,800
7. Telephone	Exempt
8. Free meal [(₹ 65 - 50) × 248]	3,720
9. Health Club	Exempt
	Gross Salary 6,07,320
Less : (i) Standard deduction	50,000
(ii) Professional tax	2,500
	Income from Salary 5,54,820

Q.14. (A) Brijesh retired from Govt. service on May 31, 2020. He received a pension @ 10,000 p.m. up to Jan. 31, 2021. He got a lumpsum pension of ₹ 5,00,000 on Feb. 1, 2021 as the commuted value of 1/4 pension. Calculate taxable pension.

(B) Mrs. Priya retired from Arnav Ltd. on July 31, 2020. She got a pension @ ₹ 6,000 p.m. up to Dec. 31, 2020. She got ₹ 7,00,000 on Jan. 1, 2021 as the commuted value of her 70% pension. She also received a gratuity of ₹ 50,000 at the time of retirement. Calculate taxable pension.

Sol.

(A) Calculation of taxable monthly pension of Mr. Brijesh :	₹
Monthly Pension for eight months (From June 1, 2020 up to Jan. 31, 2021) 10,000 × 8	80,000
Pension for two months (From Feb. 1, 2021 up to March 31, 2021) $10,000 \times \frac{3}{4} \times 2$	15,000
	Taxable Pension 95,000

Commuted pension received by Brijesh will not be taxable because he is a Govt. employee.

(B) Calculation of Taxable Monthly Pension of Mrs. Priya :	₹
Monthly Pension for five months (From Aug. 1, 2020 up to Dec. 31, 2020) 6,000 × 5	
Pension for three months (From Jan. 1, 2021 up to March 31, 2021) $6,000 \times \frac{30}{100} \times 3$	5,400
	Taxable Pension 35,400

Calculation of Taxable Commuted Pension of Ms. Priya :

Commuted Pension 70% of the Pension ₹ 7,00,000

Commuted value of full pension $7,00,000 \times \frac{100}{70} = ₹ 10,00,000$

1/3rd of Commuted value of the full pension is exempt from tax because Ms. Priya receives gratuity.

Exempted amount of pension $10,00,000 \times 1/3 = ₹ 3,33,333$

Taxable amount of commuted pension $(7,00,000 - 3,33,333) = 3,66,667$.

Q.15. Shri Devansh was employed in a company. He took voluntary retirement on 1st December, 2020 after completing 25 years of service. On 1st January, 2020 his salary was ₹ 12,000 p.m. after adding the annual increment. In this company, two months' leave accrued every year. Compute the exempt amount regarding encashment of earned leave, if his other particulars were as under :

	A	B	C
Total leave availed during service	10 months	Nil	30 months
Actually received amount	₹ 4,80,000	6,00,000	2,40,000

Sol. Average salary ₹ 12,000 per month.

Approved period of earned leave 25 months.

(on the basis of 30 days per year)

The least of the following amounts will be exempt :

	A	B	C
	₹	₹	₹
(i) Salary for 10 months on the basis of average salary	1,20,000	1,20,000	1,20,000
(ii) Salary for the period remaining after deducting leave availed from the total approved period of earned leave (on the basis of average salary)	$(15 \times 12,000)$ = 1,80,000	$(25 \times 12,000)$ = 3,00,000	Nil Nil
(iii) Maximum limit	3,00,000	3,00,000	3,00,000
(iv) Actually received amount	4,80,000	6,00,000	2,40,000

The amount exempt will be :

Case (A) ₹ 1,20,000; Case (B) ₹ 1,20,000; and

Case (C) ₹ Nil.

Q.16. Shri Subhash was an employee of a factory in Delhi which is not covered under the Payment of Gratuity Act. He got ₹ 16,000 p.m. as basic pay ₹ 1,600 per month as dearness allowance and ₹ 1,000 p.m. as House Rent Allowance. He resides in his own house. He got ₹ 10,000 as a travelling allowance for the tour.

Shri Subhash retired on 1st January, 2021 and got ₹ 1,60,000 as gratuity and ₹ 2,00,000 as accumulated balance in his Unrecognised Provident Fund. His own contribution and that of the factory to this fund was equal. He also received ₹ 1,76,000 being the amount of salary including dearness allowance for 10 months' earned leave to his credit at the time of retirement. Leave accrued at 30 days per year of actual service.

He was allowed to get pension ₹ 4,000 per month, three-fourths of which was commuted for ₹ 1,80,000. He commenced service of this factory on 1st August,

1989 and his average salary during the ten months immediately preceding his retirement was ₹15,600.

Compute the taxable income from salary of Shri Subhash for the Assessment Year 2021-22.

Sol. Computation of Taxable Income from Salary
(for the Assessment Year 2021-22)

Basic Salary for 9 months	₹ 1,44,000
Pension for 3 months @ ₹ 1,000 p.m.	3,000
Dearness Allowance for 9 months	14,400
House Rent Allowance for 9 months	9,000
1/2 of lump-sum received from Unrecognised Provident Fund	1,00,000
Gratuity	Nil
Commutated Value of Pension	1,00,000
Encashment of Earned Leave	20,000
	Gross Salary 3,90,400
Less : Standard deduction	50,000
	Taxable Income from Salary 3,40,400

Notes : 1. House Rent Allowance is fully taxable as the assessee is living in his own house.

2. On-half of lump-sum amount received from Unrecognised Provident Fund is taxable as an employer's contribution and interest there on under the head salary.

3. The least of the following amounts of gratuity is exempt :

(i) 1/2 month's salary for every completed year of service (salary being based on the average salary drawn during the ten months immediately preceding the retirement on the basis of ₹15,600 p.m.), i.e., or

(ii) ₹20,00,000; or

(iii) Actual amount of gratuity received.

The service of the employee is for 31 years and 5 months. It will be taken for 31 complete years. Here, (i) 1/2 month's salary for 31 years $(7,800 \times 31) = ₹2,41,800$, (ii) ₹20,00,000, and (iii) ₹1,60,000. As the actual amount of gratuity received is least of all, the whole gratuity is exempt.

4. As the assessee is in receipt of gratuity, the commutation of pension will be exempt to extent of commutation value of 1/3rd of the normal pension only i.e., $1,80,000 \times 4/3 \times 1/3 = ₹80,000$. Hence, taxable part of commutation value $= ₹1,80,000 - 80,000 = ₹1,00,000$.

5. The least of the following amounts will be exempt regarding encashment of earned leave :

(i) 10 months' salary on the basis of the average salary for last 10 months, i.e., $₹15,600 \times 10 = ₹1,56,000$; or

(ii) Salary for approved period of earned leave not availed of i.e., $₹15,600 \times 10 = ₹1,56,000$; or

(iii) Actual amount received ₹1,76,000; or

(iv) Maximum limit ₹3,00,000.

6. As the employee has commuted 3/4 of his pension, he will now get pension @ ₹1,000 per month only.

7. Travelling allowance for tour is exempt under section 10(14)(i).

8. It is assumed that salary is due on the last day of the month.

Q.17. What are the exemptions regarding income from house property?

Ans. Exemptions Regarding Income from House Property

There are two types of exemptions regarding income from house property : (1) Income is not included in gross total income (i.e., fully exempt), and (2) Income is included in assessee's gross total income but the deduction is allowed from gross total income.

1. Fully Exempted Incomes

(i) Income from farm house.

(ii) Annual Value of one palace of ex-Indian Ruler.

- (iii) Income from property owed by :
- Local Authority;
 - Scientific Research Association;
 - Trade Union;
 - Charitable Trust;
 - Political Party;
 - University or other educational institution existing for educational purposes and not for purposes of profit;
 - Hospital or medical institution existing for philanthropic purposes and not for purposes of profits.
- (iv) Income from property used for assessee's own business or profession.
- (v) Income from one self-occupied house.
- (vi) Income from the house meant for self-residence but could not be occupied throughout the previous year on account of his service, business or profession at any other place.

2. Deductible from Gross Total Income

- Income of a co-operative society from the letting of godowns or warehouses for storage of commodities meant for sale.
- Income of a co-operative society from house property, provided its gross total income does not exceed ₹ 20,000 and the society is not a housing society, urban consumers' co-operative society, transport society or society manufacturing goods with the aid of power.

Q.18. Mr. Dharmendra Singh owns three houses in Meerut city. He got a house as a gift from a widow on the condition that she will be paid ₹ 24,000 per annum for her maintenance. The house has been let at ₹ 2,300 p.m. and the municipal taxes paid ₹ 3,000.

The value of the second house according to municipal records is ₹ 14,800 and standard rent ₹ 15,000, but it has been let at ₹ 1,500 p.m. and the tenant has undertaken to bear the cost of repairs. Municipal taxes paid amounted to ₹ 2,000.

The third house which was constructed in 1.1.2015 with a borrowed capital of ₹ 1,50,000 @ 10% per annum interest from a firm of Sydney (Australia), is occupied by Mr. Dharmendra Singh as his residence. Municipal valuation of this house is ₹ 8,000 per annum and the municipal tax is levied @ 10% but it could not be paid during the year. The outstanding loan on 1.4.2020 was ₹ 1,20,000 and nothing was repaid out of capital sum during the year. Interest has been remitted to the Sydney firm without deducting any tax from it and there is no person in India who can be treated as the agent of that firm in India.

Find out his income from house property for the Assessment Year 2021-22.

Ans. Computation of Income from House Property
(for the Assessment Year 2021-22)

First House :	₹	₹
Gross Annual Value (Actual rent)	27,600	
Less : Municipal Taxes	<u>3,000</u>	

	Annual Value	24,600	
<i>Less</i> : Deduction :	7,380	17,220	
Second House :			
G.A.V. (Expected rent ₹ 14,800 or actual rent ₹ 18,000, whichever is greater)	₹	18,000	
<i>Less</i> : Municipal Taxes	2,000	16,000	
<i>Less</i> : 30% of A.V.	Annual Value	16,000	
Third House : (Self-occupied)	4,800	11,200	
		Nil	
	Income from House Property	28,420	

Notes : 1. Now the annual charge is not deductible.

2. Under section 24, whether the tenant has undertaken to bear the cost of repairs or not, 30% of the annual value is deductible.
3. The annual value of self-occupied house is taken to be nil u/s 23(2) and no deduction is allowed u/s 24 except for interest. In the given case interest has been paid ₹ 12,000 but it is not deductible u/s 25 as neither the tax at source has been deducted nor there is any person in India who may be treated as his agent.

Q.19. Discuss the general commercial principles of computation of profits of business or profession.

Ans. Computation of Profits of Business or Profession

The profits and gains of business or profession are computed in accordance with the provisions contained in sections 30 to 40 43D. Sections 30 to 37 contain those deductions which are expressly allowed while computing profits of business or profession. Section 40 provides those expenses which are expressly disallowed. Besides these, there are some other deductions which are allowed on the basis of general commercial principles while computing profits of business or profession. It is necessary to know those principles before studying the deductions expressly allowed while computing profits of business or profession.

The general commercial principles are as under :

1. Profits should be computed according to the method of accounting regularly employed by the assessee provided that actual profit can be ascertained by this method.
2. Only those expenses and losses are allowed as deductions which were incurred or sustained during the relevant previous year.
3. These losses and expenses should be incidental to the operation of the business. For example, embezzlement by an employee during the course of business is a loss incidental to the business. Similarly, loss from dacoity in a bank is also a loss incidental to the business of a bank.
4. Only the expenses incurred in connection with the business of the assessee are allowed as deductions.
5. If a business has been discontinued before the commencement of the previous year, its expenses cannot be allowed as a deduction against the income of any other running business of the assessee.
6. There are some essential expenses though neither expressly allowed nor disallowed but are deductible while computing the profits of business or profession on the basis of general commercial principles provided that these are not expenses or losses of a capital nature or personal nature.

7. Any expenditure incurred in consideration of commercial expediency is allowed as deduction.
8. A deduction can be made from the income of that business only for which the expenses were incurred. The expenses of one business cannot be charged against the income of any other business.

Q.20. Explain the certain allowable losses.

Ans. Certain Allowable Losses

Losses which are directly incidental to the business or profession of the assessee are allowable. Following are some examples of such losses :

1. **Robbery or Dacoity** : Loss caused by robbery or dacoity is not deductible. But, if it is incidental to business it will be allowed as a deduction and this depends upon the specific circumstances and conditions. For example, if cash is sent for disbursement at different centres by a sugar factory in a rural area, it is incidental to the business and is, therefore, allowed. [Motipur Sugar Factory Ltd. vs. CIT (1955) 28 ITR 28]. Any loss due to a robbery in a bank will be allowed as the bank is under an obligation to maintain some cash outside the strong room for payments.
2. **Embezzlement, Theft, etc** : The loss of money due to embezzlement by an employee handling the funds of the business while discharging his official duties is allowed as deduction. It is deductible when discovered. [Tadalam G. Dwarkanath & Co. vs. CIT (1999) 239 ITR 831 (Kar.)]. When an employee goes to the bank to deposit the cash or takes cash with him for disbursement and he takes away the money for his own use, even then, the loss is allowable. Theft by a cashier, who is incharge of cash is also an allowable loss. A theft committed either by an employee or by someone else by breaking open into the business premises after office hours, is also allowable.
3. **Loss due to Non-recovery of Advances** : If it is the practice in business to give advance money to the suppliers and if the supplier neither supplies the order nor refunds the advance money, the loss sustained by the assessee is incidental to the business and is, therefore, allowable.

Q.21. Shri Dev Chaudhary, the proprietor of a sugar mill, has prepared the following Profit & Loss Account for the year ending 31st March, 2021. You are required to compute his income from business and his gross total income for the Assessment Year 2021-22 :

Profit & Loss Account

	₹		₹
To Trade Expenses	450	By Gross Profit	2,35,900
To Establishment Charges	2,200	By Dividends from a Co-operative Society	2,600
To Rent, Rates & Taxes	1,400		
To Discount & Allowance	200	By Rent from Property	500
To Income tax	700	By Bad debts recovered	2,000
To Interest	1,450	(Allowed as a deduction in an earlier year)	
To Postage Charges	100		
To Gifts and Presents for publicity	125		

To Fire Insurance Premium	250
To Charities	375
To Donations	400
To Repairs and Renewals	250
To Audit Fees	250
To Net Profit transferred to Capital Account	2,32,850

2,41,000

2,41,000

Sol. Computation of Income from Business
(for the Assessment Year 2021-22)

Net Profit as per Profit and Loss Account		₹	
			2,32,850
Add : Expenses not allowed :		₹	
Income tax		700	
Charities		375	
Donations		400	1,475
			<u>2,34,325</u>
Less : Rent from Property (Being not business income)		500	
Dividend (Being out business income)		2,600	3,100
			<u>2,31,225</u>
		Income from Business	<u>2,31,225</u>

Computation of Gross Total Income
(for the Assessment Year 2021-22)

1. Income from House Property		₹	
			350
2. Income from Business			2,31,225
3. Income from other Sources : Dividends			2,600
			<u>2,34,175</u>
		Gross Total Income	<u>2,34,175</u>

Notes :

- Income from House Property has been computed as under :

Rent A.V.	₹	₹
	500	
Less : 30% of A.V.	150	350
- Bad Debts recovered, which had been allowed in an earlier year, is taxable as business income.
- Gifts and presents for publicity are in the nature of the advertisement, hence allowed.

Q.22. The following is the Profit & Loss Account of Mr. Badal Chaudhary for the year ended on 31st March, 2021. Compute his taxable income from the business for that year :

To Opening Stock	₹	15,000	By Sales	₹	2,80,000
To Purchases	1,40,000	By Closing Stock		20,000	
To Wages	20,000	By Gift from father		10,000	
To Rent	46,000	By Sale of Car		17,000	
To Repairs of Car	3,000	By Income tax Refund		3,000	
To Medical Expenses	3,000				
To General Expenses	10,000				
To Depreciation of Car	4,000				
To Profit for the year	89,000				
	<u>3,30,000</u>			<u>3,30,000</u>	

Following further information are given :

1. Mr. Badal carries on his business from a rented premises half of which is used as his residence.
2. Mr. Badal bought a car during the year for ₹ 20,000. He charged 20% depreciation on the value of the car. The car was sold during the year for ₹ 17,000. The use of the car was 3/4th for the business and 1/4th for personal use.
3. Medical expenses were incurred during the sickness of Mr. Badal for his treatment.
4. Wages include ₹ 250 per month on account of Mr. Badal's driver for 10 months.

Sol. Computation of Taxable Income from Business
(for the Assessment Year 2021-22)

	₹	₹
Profit as per Profit & Loss A/c		89,000
Add : Items Disallowed :		
(i) 1/4th wages regarding driver's salary for personal use of car	625	
(ii) 1/2 rent regarding personal use of house	23,000	
(iii) 1/4 repairs of the car regarding personal use	750	
(iv) Medical expenses (Not for business)	3,000	
(v) Depreciation as the car was sold during the year	4,000	31,375
		1,20,375
Less : Items not taxable :		
(i) Income tax refund	3,000	
(ii) Gift from father	10,000	
(iii) Sale of Car (Capital Receipt)	17,000	30,000
Taxable Income from Business		90,375

Notes : 1. Gift from father (relative) is not taxable.

2. Not depreciation will be allowed on car as the car was purchased and sold during the same previous year. However, there is a short-term capital loss of ₹ 3,000, 3/4th of which relates to business. As such short-term capital loss of ₹ 2,250 will be carried forward to set-off against capital gain of the following and subsequent years up to a maximum of eight years.

Q.23. Discuss the provisions relating to depreciation on the straight line method or actual cost method.

Ans. Provisions Relating to Depreciation on the Straight Line Method

1. An undertaking engaged in generation and distribution of power at its option may claim depreciation either on the straight line method or W.D.V. method on asset acquired on or after 1st April, 1997.
2. Where the assessee opts that the depreciation be allowed on W.D.V. method, the option should be exercised before the due date of furnishing the return u/s 139(1).
3. Such option once exercised shall be final and shall apply to all the subsequent assessment years.
4. The aggregate depreciation allowed in respect of any asset for different assessment years shall not exceed the actual cost of the asset.
5. Sale of an asset :
 - (a) **Sale of the Asset at a Loss :** When a building, machinery, plant and furniture on which the depreciation has been claimed, is sold, discarded, demolished or

destroyed in the previous year (other than the previous year in which it is first brought into use), the amount of depreciation shall be—the amount by which the money payable in respect of such asset together with the amount of scrap value, if any, fall short of the W.D.V. thereof. The deduction shall be allowed if the deficiency is actually written-off in the books of the assessee.

If an asset is sold or discarded in the previous year in which it is first brought into use, the loss shall be treated as a short-term capital loss.

(b) **Sale of the Asset at a Profit :** Where the aforesaid asset is sold, discarded, demolished or destroyed and the money payable in respect of such asset together with the amount of the scrap value, if any, exceeds the W.D.V., the excess shall be dealt with as under :

(i) The excess up to the amount of depreciation claimed shall be chargeable to tax as income of the business of the previous year in which the money payable for the asset became due.

(ii) The excess over cost shall be chargeable as capital gains.

Q.24. From the following details, compute the depreciation allowance allowable to Mr. Jugnu Singh under the Income Tax Act, 1961 for the Assessment Year 2021-22 :

	₹
(a) Written-down value of Plant and Machinery on 1.4.2020	3,60,000
(b) Additions to plant made on 1.8.2020 to increase the production of an article	85,000
(c) Cost of machinery purchased on 1.1.2021 but not installed during the year	60,000
(d) Sale proceeds of machinery which were originally bought on 1.4.2018 for ₹ 84,000	1,00,000
(e) Machinery destroyed in a fire accident on 30.3.2021. Original cost from the insurance company	15,000

Rate of depreciation is 15%.

Sol. Computation of Depreciation Allowance
(for the Assessment Year 2021-22)

	₹
Write-down value of Plant and Machinery on 1.4.2020	3,60,000
Additions to Plant	85,000
	₹ 4,45,000
Less : Sale consideration of machine sold	1,00,000
Machine destroyed in a fire and the amount received from insurance company	15,000
	1,15,000
W.D.V. of Plant and Machinery for the Assessment Year 2021-22	3,30,000
Less : Depreciation @ 15%	49,500
Additional depreciation on ₹ 85,000 @ 20%	17,000
	Depreciation Allowance 66,500
	W.D.V. on 1.4.2021 2,63,500

Q.25. You are given the following particulars in respect of Mr. Dharam Singh. Compute depreciation allowable as per the Income Tax Act, 1961 for the Assessment Year 2021-22 :

	₹
(i) Written-down value of plant and machinery on 1.4.2020	3,24,000
(ii) Additions to plant made on 1.12.2020 to produce an article	1,00,000

- | | |
|---|----------|
| (iii) Machinery purchased on 31.12.2020 which could not be installed during the previous year | 1,20,000 |
| (iv) Sale proceeds of the machinery which was originally purchased on 1.4.2018 for ₹ 1,00,000 | 1,30,000 |
| (v) Machinery damaged in a fire accident on 30.3.2021. Its original cost on the date of purchase on 1.4.2019 was ₹ 50,000. The amount received from the insurance company | 30,000 |
- Rate of depreciation 15%.

Sol. Computation of Depreciation Allowance
(for the Assessment Year 2021-22)

	₹	
W.D.V. on 1.4.2020		3,24,000
<i>Add :</i> Addition to Plant on 1.12.2020		1,00,000
Machinery purchased but not installed during the Previous Year—No depreciation		—
	₹	4,24,000
<i>Less :</i> Machinery sold	1,30,000	
Machinery damaged—Compensation received	30,000	1,60,000
W.D.V. for the Assessment Year 2021-22		2,64,000
<i>Less :</i> Depreciation on ₹ 1,64,000 @ 15%	24,600	
Depreciation on ₹ 1,00,000 @ 7.5%	7,500	
Additional depreciation on ₹ 1,00,000 @ 10% (Machine used for less than 180 days during the previous year)	10,000	
Depreciation Allowance		42,100
W.D.V. as on 1.4.2021		2,21,900

Note : Additional depreciation on ₹ 1,00,000 @ 10% shall be allowed in the Assessment Year 2022-23.

SECTION-C LONG ANSWER TYPE QUESTIONS

- Q.1.** Shri Dev Chaudhary is the manager of a company in Agra. He receives every month ₹ 50,000 as basic pay, ₹ 500 as entertainment allowance and ₹ 3,000 as dearness allowance.
1. He owns his house but the company has provided him the following amenities :
 - (a) a gardener, a sweeper, a watchman and a domestic servant each of whom are paid ₹ 500; ₹ 200; ₹ 1,100 and ₹ 600 per month respectively.
 - (b) free use of the refrigerator costing ₹ 8,400 from 1st September, 2020. The company incurred ₹ 400 on its repairs during the previous year.
 2. His following obligations were paid by the company :
 - (a) Gas, electricity and water bills amounting to ₹ 15,000.
 - (b) Annual membership fee to Lion's Club ₹ 1,000.
 3. The company has provided him the facility of a large car. The car is used for private purposes also and all expenses including the driver's salary are borne by the company.
 4. His son is studying in a school run by the company. The annual expenses incurred by the company per student is ₹ 8,000. Had he been sent for education to a similar school in Agra, a sum of ₹ 5,000 would have been payable during the year.

5. The company allotted him 300 shares at ₹ 100 each, whereas the fair market value on the date on which the option is exercised by the employee was ₹ 120.
6. He proceeded on leave to Nainital. He stayed there in the guest house of the company and saved ₹ 5,000 on account of accommodation.

Compute this Gross Salary for the Assessment Year 2021-22.

Sol.

Computation of Gross Salary
(for the Assessment Year 2021-22)

Basic Pay	₹ 6,00,000
Dearness Allowance	36,000
Entertainment Allowance	6,000
Perquisites :	
Car including driver [(₹ 2,400 + 900) × 12]	39,600
Gardener	1,800
Sweeper	2,400
Watchman	13,200
Domestic Servant	7,200
Refrigerator for 7 months	490
Free Education	—
Guest House	5,000
Concession in Shares (₹ 20 × 300)	6,000
Gas, electricity and water bills	15,000
Membership fee to Lion's Club	1,000
Gross Salary	<u><u>₹ 7,33,690</u></u>

Notes :

1. The perquisite value of the gardener, sweeper, watchman and domestic servant provided by the employer is to be calculated at actual wages paid to them.
2. Perquisite of free education is nil as the cost per child per month is less than ₹ 1,000.
3. Perquisite value of the refrigerator is taken as 10% of its cost of ₹ 8,400 for 7 months only. Repairs cost incurred by the company is not to be added here.

Q.2. Mr. Billu (Age : 56 years) receives the following incomes from XYZ Limited during the year ending 31-03-2021 :

- (i) Salary @ ₹ 65,000 p.m.
- (ii) Tiffin allowance (actual total expenses : ₹ 20,000) @ 2,000 p.m.
- (iii) Reimbursement of medical expenses for the treatment of 'Billu' and his family members ₹ 15,000.
- (iv) Transport allowance @ ₹ 1,800 p.m. (actual total expenses : ₹ 10,000)
- (v) Unfurnished flat provided at Meerut at a nominal rent of ₹ 6,000 p.m. (rent paid by the employer : ₹ 18,000 p.m.)
- (vi) Employer Company sells the following assets to 'Billu' on 10-01-2021 :

Assets Sold	Car	Computer	Fridge
Cost of assets to the employer	₹ 4,00,000	₹ 60,000	₹ 20,000
Date of Purchase (Put to use on the same day)	10-06-2018	12-07-2017	05-04-2018
Sale price	₹ 2,00,000	₹ 8,000	₹ 12,000

(vii) On October 1, 2020 the company gives its music system to him for domestic use. Ownership is not transferred. Cost of music system (in April 2010) to the employer is ₹ 15,000.

(viii) He has contributed 18% of his salary to Recognized Provident Fund account to which his employer made a matching contribution : interest @ 12.5% p.a. amounting to ₹ 50,000 has been credited to the aforesaid Recognized Provident Fund account during the previous year.

Determine taxable salary of Billu for the Assessment Year 2021-22.

Sol.

Computation of Taxable Salary
(for the Assessment Year 2021-22)

		₹
1. Salary		7,80,000
2. Tiffin Allowance (Fully Taxable)		24,000
3. Reimbursement of Medical Expenses (Not exempt)		15,000
4. Transport Allowance (Not exempt)		21,600
5. House at Concessional rent [15% of salaries i.e., 7,80,000 + 24,000 + 21,600] ₹ 1,23,840 or ₹ 2,16,000 whichever is less)	1,23,840	
Less : Rent Charged	72,000	51,840
6. Assets Sold :		
Car		56,000
Computer		4,960
Fridge (See note)		4,000
7. Music system for domestic use (Asset used for more than ten years, hence the value of perquisite would be nil)		—
8. Contribution of the employer to RPF in excess of 12% of salaries ₹ 7,80,000		46,800
9. Interest on RPF in excess of 9.5%		12,000
	Gross Salary	10,16,200
Less : Standard deduction		50,000
	Taxable Salary	9,66,200

Notes: Computation of perquisite value of Assets sold :

(i) Car (Dep. @ 20% on WDV method) :

Cost of Car		4,00,000
Depreciation I year		80,000
	WDV	3,20,000
Depreciation II year		64,000
		2,56,000
Less : Sale Price		2,00,000
	Value of perquisite	56,000

(ii) Computer (Dep. @ 40% WDV method) :

Cost of Computer	60,000
Depreciation I year	24,000
	WDV 36,000
Depreciation II year	14,400
	WDV 21,600
Depreciation III year	8,640
	WDV 12,960
Less : Sale Price	8,000
	Value of perquisite 4,960

(iii) Fridge (Dep. @ 10% SLM) :

Cost of Fridge	20,000
Less : Depreciation for two years	4,000
	16,000
Less : Sale price	12,000
	Value of perquisite 4,000

Q.3. Discuss the treatment of pension as per Income Tax Act.

Ans.

Treatment of Pension

Pension is a payment made by the employer after the retirement/death of the employee as a reward for past service.

Pension is normally paid as a periodical payment on monthly basis but employers may also allow an employee to forgo a portion of the pension and receive a lump sum amount by surrendering such portion of pension. This is known as commutation of pension. The pension may be fully or partly commuted *i.e.*, in lieu of the pension, a lump sum payment is made to the employee.

Pension

Whatever pension is received by an employee (Government or Non-government) after retirement, it is chargeable under the head 'Salaries'.

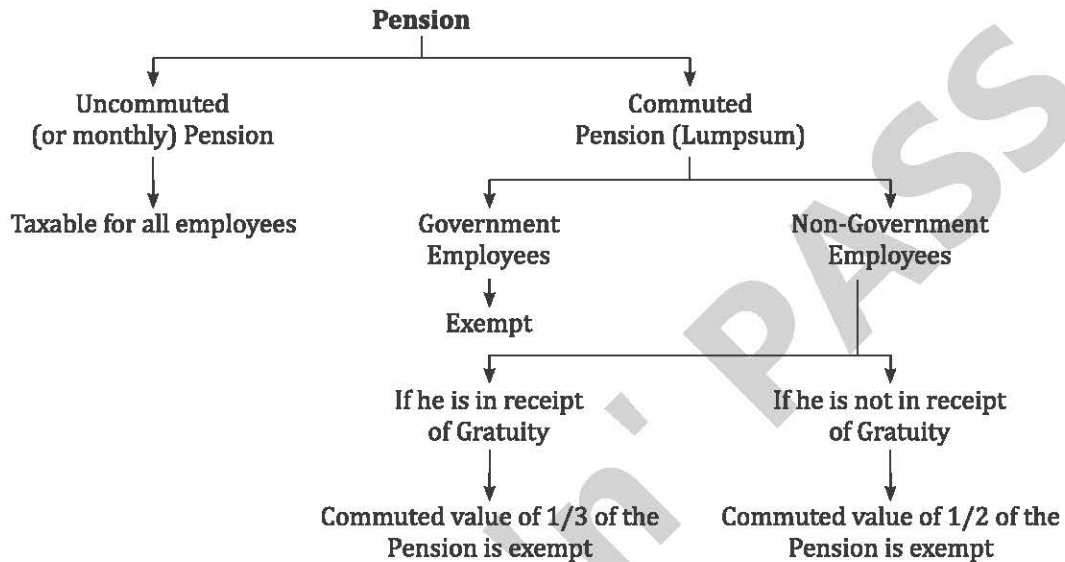
If a person after serving in India, retires and settles in a foreign country, receives a pension on account of such service, such pension shall be deemed to accrue and arise in India and chargeable under the head 'Salaries' even if he becomes non-resident in India.

Commutation of Pension

Sometimes the employee wants to have a lump-sum payment in lieu of pension which he would have otherwise received monthly. The lump-sum payment which he receives on foregoing the pension (either full or a part of it) is known as the commuted value of the pension. This is exempt from tax subject to the following limits : [Sec. 10(10A)]

- (i) Any payment received in commutation of pension by all categories of Central and State Governments employees and employees of any local authority or of any statutory corporation, or any Government employee absorbed in a public sector undertaking, is fully exempt from tax.
- (ii) Any payment in commutation of pension received from any other employer is exempt, to the extent it does not exceed :
 - (a) The commuted value of one-third of the normal pension if he also receives gratuity;
 - (b) The commuted value of one-half of such pension if he does not receive gratuity.

- (iii) Any payment received by an individual in commutation of pension from a fund set-up by Life Insurance Corporation of India since 1st August, 1996 or any other insurer under a pension scheme to which contribution is made by the individual receiving pension would be exempt from income tax.



Q.4. Elaborate the basis of charge under the head 'Income from House Property'.

Ans.

Basis of Charge

Under the head 'Income from House Property' the basis of charge is the *annual value of property* :

- (i) consists of any buildings or lands appurtenant thereto,
- (ii) of which the assessee is the owner, and
- (iii) which is not used for purposes of assessee's business or profession. (Sec. 22)

The following are the important points in the above definition :

(1) Buildings or lands appurtenant thereto

Under the head 'Income from House Property' income is computed on buildings and land appurtenant thereto. A land which is not appurtenant to any building does not come within the scope of this section. Income from such land is taxable under the head 'Income from Other Sources'. The lands appurtenant to the building includes compound, play-ground, kitchen-garden, courtyard, etc. In the case of non-residential building, car parking spaces, drying grounds, play grounds, connecting roads in the factory area shall be lands appurtenant to buildings.

Exceptions : The following are the exceptions to the general rule that income from house property is taxable under the head 'Income from House Property' :

- (a) **Building or staff quarters let out to employees and others :** If the assessee lets out the building or staff quarters to the employees of business whose residence there is a necessity for the efficient conduct of business, the rent collected from such employees is assessable as income from business and not as income from house property.

(CIT vs. Delhi Cloth & General Mills Ltd. 59 ITR 152)

- (b) If a building is let out to authorities for locating bank, post office, police station, etc., income from such building will be assessable as income from business and not as income from house property, provided the dominant purpose of letting out the building is to enable the assessee to carry on his business more efficiently and smoothly. [CIT vs. National Newspaper and Paper Mills Ltd. (1978) 114 ITR 388]
- (c) **Composite letting of building with other assets** : Where the assessee lets on hire machinery, plant or furniture belonging to him and also buildings for a composite rent and the rent of the buildings is inseparable from the rent of the said machinery, plant or the furniture, the income from such letting is not chargeable to income tax under the head 'Income from House Property' but it is taxable under the head 'Income from Other Sources' or under the head 'Business or Profession', if such letting is his business. [Sec. 56(2)(iii)]
- (d) **Paying-guest accommodation** : It is assessable as business income.

Where in terms of a memorandum of association, the main object of the assessee company was to acquire properties and earn income by letting out same, said income was brought to tax as business income and not as income from house property.

[Chennai Properties & Investment Ltd. vs. CIT (2016) 231 Taxman 456(SC)]

(2) The Assessee should be the owner of the house property

It is only owner of the house property, who is liable to pay tax, under this head of income. Where the assessee is the lessee of a building and he derives an income from subletting or reletting, it will be taxable under the head 'Income from Other Sources' and not under the head 'Income from House Property'.

The following are the owners of house property :

- (i) The person in whose name the property is registered.
- (ii) In case of a mortgage, it is the mortgagor and not the mortgagee.

Deemed Owners (Sec. 27) : The following are deemed to be the owners of the property :

- (a) An individual who transfers any house property to his or her *spouse*, without adequate consideration or not being a transfer in connection with an agreement to live apart, or to a *minor child* not being a married daughter shall be deemed to be the owner of the house property so transferred.
- (b) A member of a Co-operative Society, Company or an Association of Persons to whom a building or its part is allotted or leased under a house building scheme of the society, company or association shall be deemed to be the owner of that property.
- (c) A person who is allowed to retain possession of any building in part performance of a contract (referred to in the Transfer of Property Act) shall be deemed to be the owner of that building.
- (d) A person having lease rights in the property under a lease extending to 12 years or more in the aggregate including the term for which the lease may be extended shall be deemed to be the owner of the property.
- (e) If a person takes land on lease and constructs a house upon it, he will be deemed to be its owner.
- (f) **Disputed Ownership** : If the title of ownership is disputed in a court of law, the recipient of rental income or the person who is in possession of the property as the owner is treated as the owner.

(3) It is not used for purposes of assessee's business or profession

If the property or a portion of it is occupied by the assessee for the purpose of his own business or profession and the profits of such business or profession are assessable to tax, the annual value in respect of such property or portion of it is not taxable as income from house property and also nothing will be deductible as expenditure on rent of these premises in computing the profits of business or profession.

(a) From the following information compute Annual Value of the house properties for the Assessment Year 2021-22 :

	House Properties				
	I	II	III	IV	V
	₹	₹	₹	₹	₹
1. Fair rent	30,000	25,000	28,000	—	—
2. Municipal valuation	25,000	27,000	29,000	25,000	26,000
3. Rent received (<i>De facto</i> rent)	28,800	30,000	27,600	30,000	2,000 p.m.
4. Standard rent	—	—	—	24,000	27,000
5. Municipal tax	Paid for P.Y. 2020-21	Paid for P.Y. 2019-20 & 2020-21	Paid for P.Y. 2020-21 & 2021-22	Not paid	Paid 1,400 for 6 months
	2,500	5,400	5,800		
6. Date of completion of construction	—	—	—	—	1.10.2020

(b) The gross annual value (municipal value) of a house is ₹ 1,00,000, Municipal tax is charged @ 20% of the municipal value. However, the landlord can pay municipal tax @ 15% for ten years in advance and in that case no tax shall be charged from him in future. Mr. X paid ₹ 1,50,000 to the municipality during the previous year. Compute the annual value of the house properties.

(a) Computation of Annual Value of the House Properties

(for the Assessment Year 2021-22)

	I	II	III	IV	V
	₹	₹	₹	₹	₹
1. Expected rent	30,000	27,000	29,000	24,000	13,000
2. Actual rent	28,800	30,000	27,600	30,000	12,000
G.A.V. 1 or 2, whichever is greater	30,000	30,000	29,000	30,000	13,000
Less : Municipal tax paid	2,500	5,400	5,800	—	1,400
Annual Value	27,500	24,600	23,200	30,000	11,600

Notes :

- (1) Building V was in existence for six months during the previous year, hence, G.A.V. for six months has been considered.
- (2) Municipal tax paid during the previous year, whether related to the previous year or preceding year or the following year is deductible to arrive at the annual value.

(b) Computation of Annual Value of the House

(for the Assessment Year 2021-22)

G.A.V.	₹ 1,00,000
Less : Municipal tax paid	1,50,000
Annual Value (-)	50,000

Note : When municipal tax paid by owner exceeds G.A.V. there can be negative annual value.

Q.5. Amar, Akbar and Anthony are three friends owning equally a house property consisting of six identical units. One unit is self-occupied by each one of them for their residence. The remaining 3 units are let-out on a monthly rent of ₹ 6,000 per unit. The municipal value of the house property is ₹ 4,00,000 and the municipal taxes paid amount to ₹ 80,000 during the year. The other expenses were as under :

(i) Collection charges	₹ 6,000
(ii) Insurance premium paid	7,000
(iii) Interest on loan is taken for construction of house in 1998	1,30,000

One of the let-out units remained vacant for three months during the Financial Year 2020-21. Mr. Akbar could not occupy his unit for 8 months as he was transferred to some other city. He does not own any other house property. The other taxable income of Amar, Akbar and Anthony are ₹ 90,000, ₹ 1,00,000 and ₹ 1,20,000 respectively.

Compute the taxable income under the head 'Income from House Property' and also the total income of the three friends for the Assessment Year 2021-22.

Sol. Computation of Taxable Income from House Property
(for the Assessment Year 2021-22)

Let-out units (50% of Full House)	₹
Expected rent ₹ 2,00,000	
Actual rent ₹ 2,16,000 – 18,000 = ₹ 1,98,000	
Actual rent is less than expected rent due to vacancy. Hence, gross annual value ₹ 1,98,000	
G.A.V.	1,98,000
	40,000
	Annual Value 1,58,000
<i>Less : Deductions :</i>	₹
(i) 30% of A.V.	47,400
(ii) Interest on Loan (1/2)	65,000
	1,12,400
Taxable Income from Let-out Units	45,600

Share of each co-owner = $1/3$ of ₹ 45,600 = ₹ 15,200.

Self-occupied units (50% of Full House)

	Amar	Akbar	Anthony
	₹	₹	₹
Annual Value	Nil	Nil	Nil
<i>Less : Interest on loan</i> $65,000/3 = ₹ 21,667$ restricted to the maximum of ₹ 30,000 for each co-owner	21,667	21,667	21,666
Loss from self-occupied unit	<u>- 21,667</u>	<u>- 21,667</u>	<u>- 21,666</u>

Computation of Total Income of three Friends

(for the Assessment Year 2021-22)

	Amar ₹	Akbar ₹	Anthony ₹
<i>Income from House Property :</i>			
Let-out units	15,200	15,200	15,200
Self-occupied units	- 21,667	- 21,667	- 21,666
Loss from House Property	- 6,467	- 6,467	- 6,466
Other Taxable Income	90,000	1,00,000	1,20,000
Total Income	83,533	93,533	1,13,534

Note : Interest on loan shall be divided into 6 equal parts. Out of the total loan 1/2 will be for let-out units and 1/2 will be for self-occupied units. But in the case of self-occupied units, there is the maximum limit of ₹ 30,000. (The loan is taken prior to 1-4-1999). It is, however, immaterial that Mr. Y could not occupy this unit (due to his transfer to some other city) for eight months.

Q.6. Which are the incomes that are chargeable to income tax under the head 'Profits and Gains of Business or Profession'?

Ans. Profit and Gains of Business or Profession

The following incomes are chargeable to income tax under the head 'Profits and Gains of Business or Profession' :

- (1) **Revenue Profits from Business or Profession :** The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year.
- (2) **Any Compensation due to or Received by :**
 - (a) any person, managing the whole or substantially the whole of the affairs of an Indian Company in connection with the termination of his management or the modification of the terms and conditions relating thereto;
 - (b) any person, managing the whole or substantially the whole of the affairs in India, of any other company in connection with the termination of his office or the modification of the terms and conditions relating thereto;
 - (c) any person, holding an agency in India for any part of the activities relating to the business or any person in connection with the termination of an agency or the modification of the terms and conditions relating thereto;
 - (d) any person, for or in connection with the vesting in the Government, or in any corporation owned or controlled by the Government, under any law for the time being in force, of the management of any property or business.

The compensation received by the person on cancellation of consultancy agreement is a capital receipt and not assessable u/s 28(ii)(c).

[*CIT vs. Seshasayee Bros. (P.) Ltd.* (1999) 239 ITR 471 (Mad.)]

- (e) any person at or in connection with the termination or the modification of the terms and conditions, of any contract relating to his business. (*w.e.f.* Assessment Year 2019-20).
- (3) **Income of Trade Association etc. :** Income derived by a trade, professional or similar association from specific services performed for its members;
- (4) **Receipts in Connection with Foreign Trade :**
 - (a) Profit on sale of a licence granted under the Imports Control Order, 1955;

- (b) Cash assistance received or receivable by any person against exports under any scheme of the Government of India;
 - (c) Repayment of any customs or excise duty to any person against exports;
 - (d) Any profit on the transfer of the Duty Entitlement Pass Book Scheme, being Duty Remission Scheme, under the export and import policy;
 - (e) Any profit on the transfer of the Duty Free Replenishment Certificate, being the Duty Remission Scheme, under the export and import policy;
- (5) **Value of any Benefit or Perquisite** : The value of any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession, *e.g.*, where a lawyer in consideration of his services to a company gets free accommodation, the value will be assessable in the hands of the assessee as his income under the head 'Profits and Gains of Business or Profession'.
- (6) **Receipts of a Partner from the Firm** : Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm from the firm provided that it has been allowed as a deduction in computing the taxable profits of such firm.
- (7) **Interest on Securities** : Interest on securities, if the business of the assessee is to invest in securities, otherwise interest on securities shall be chargeable to income tax under the head 'Income from Other Sources'.
- (8) Any sum received under a Keyman Insurance Policy including bonus.
- (8A) The fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset. (*w.e.f.* Assessment Year 2019-20).
- (9) Any sum, whether received or receivable in cash or kind, under an agreement for :
 (a) not carrying out any activity in relation to any business or profession; or
 (b) not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision of services.
- (10) Any sum, whether received or receivable, in cash or kind, on account of any capital assets (other than land or goodwill or financial instruments) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction u/s 35AD.
- (11) Income from speculative transactions.

However, any sum, whether received or receivable, in cash or kind, on account of transfer of the right to manufacture, produce or process any article or thing or right to carry on any business or profession, which is chargeable under the head 'Capital Gains' shall not be treated as income under this clause.

For the purpose of (3) above, trade association means an association of businessmen for the protection and advancement of their common interest, *e.g.*, a Chamber of Commerce. Section 28(iii) does not apply to other social associations, *e.g.*, a sports club, or cricket club and so on.

Where speculative transactions carried on by an assessee are of such a nature as to constitute a business, the business shall be called 'Speculation Business' and it shall be deemed to be distinct and separate from any other business.

'Speculative transactions' means transactions in which a contract for the purchase or sale of any commodity including stocks and shares is settled otherwise than by the actual delivery or transfer of the commodity or scrips.

[Sec. 43(5)]

Q.7. Discuss the important rules regarding assessment of profit and gains of business or profession.

Ans. Rules regarding Assessment of Profit and Gains of Business or Profession

Following are the main rules regarding assessment of profit and gains of business or profession :

- (1) **Business or Profession carried on by the assessee** : Tax is chargeable from the person who carries on the business or profession. It is immaterial if the assessee (owner of the business) carries on the business through a manager or other servant or any other agent duly authorized by him.
- (2) **Tax is chargeable on the aggregate income from all businesses or professions carried on by an assessee** : The profits and gains of different businesses or professions carried on by an assessee are not taxable separately but tax is chargeable under one head on the aggregate income from all businesses or professions carried on by the assessee.
- (3) **Profits and Losses of speculation business are kept separate** : Profits and losses of a speculation business carried on by an assessee are kept separate, *i.e.*, if there is a loss in a speculation business it can be set-off only against profits of speculation business.
- (4) **The business or profession is carried on by an assessee for any time during the previous year** : The assessee should have carried on the business or profession for any time during the business year, *i.e.*, whether for a full year or for a part of the previous year only.
- (5) **Profits on the sale of assets on the winding up of a business** : Profits made in winding up of a business by the sale of assets in one lot are not taxable as business profit but as a capital gain.
- (6) **No tax is payable on anticipated or notional profits** : Tax is levied on the actual profit of the previous year and not on the anticipated profits. If in a business there is an expectation of earning some profits in the near future no tax can be levied on such profits.
- (7) **Expenses of an isolated transaction** : An isolated transaction of purchase and sale is in the nature of trade. For determining the profit earned by the assessee in such a transaction, the expenses incurred by him in respect of that transaction during the years prior to the year of account shall be allowed as a deduction.
- (8) **Income of illegal business or profession** : Tax is payable on the income of every business or profession whether legal or illegal. The expenses incurred to earn income from an illegal business which are incidental to such business are to be allowed as deduction out of the income earned from illegal business. However, penalties levied for infraction of law and expenses incurred in defence of criminal proceedings are not allowed. *Loss computed under an illegal business cannot be set-off against the profits of legal business.*
- (9) **Expenses incurred before setting up a business** : These expenses are not admissible. In the case of a company expenses incurred before incorporation are not allowable but those incurred after incorporation but before the commencement of business are allowable. However, specified preliminary expenses incurred by an Indian Company or any other resident person is allowed under *section 35D*.

- (10) **General commercial principles to be kept in view while determining the real profits of a business** : It is essential to keep in view the general commercial principles while determining the real profits of a business.
- (11) **Deductible Business Losses** : Business losses which are not of a capital nature and which have been sustained during the previous year and which are incidental to the business carried on by the assessee are deductible while computing income under the head 'Business or Profession'.
- (12) **Sums previously allowed as deduction are taxable if recovered during the previous year** : If an assessee receives during the previous year any sum connected with the business which during any preceding year was allowed as a deduction (being in the nature of loss expenditure or a liability) then while computing the taxable profits of that year, it will be taxable as a business income during the previous year in which they are recovered.

Q.8. Discuss the various profits chargeable to tax under the head 'Profit and Gains of Business or Profession'.

Ans. Profits Chargeable to Tax

The following profits are also chargeable to tax under the head 'Profits and Gains of Business or Profession' :

(1) Recovery of any loss or expenditure allowed as a deduction in an earlier year

[Sec. 41(1)]

- (a) If any sum allowed as deduction as a loss or expenditure in an earlier year is recovered in a subsequent year, the amount so recovered shall be treated as deemed profit and shall be chargeable to income tax in the year of recovery.
- (b) If any loss or expenditure has been allowed as a deduction in an earlier year and thereafter if the business has changed hands and subsequently the successor in business has realised any amount in respect of such loss or expenditure, the amount shall be deemed to be profits chargeable to tax in the hands of the successor.

(2) Profit on Sale of Assets on which depreciation is claimed on Straight Line Method

[Sec. 41(2)]

Where any building, machinery, plant or furniture which is (i) owned by the assessee, (ii) in respect of which depreciation has been claimed on Straight Line Method, and (iii) which has been used in the business is sold, discarded, demolished or destroyed and the money payable in respect of such assets together with the amount of scrap value exceeds the written-down value, the excess up to the difference between the actual cost and the written-down value shall be taxable as deemed profit. The deemed profit is assessable even if the business to which it relates has been closed down.

U/s 41(2) money refers only to cash and not money's worth.

Where an asset is reinstated by Insurance Company, the benefit derived from reinstatement is not covered by Sec. 41(2).

[CIT vs. Kasturi & Sons Ltd. (1999) 237 ITR 24 (S.C.)]

(3) Sale of the assets used for scientific research

[Sec. 41(3)]

If capital assets used for scientific research is sold without having been used for other purposes and the sale proceeds together with the deductions allowed u/s 35 exceed the amount of capital expenditure incurred on it, such surplus or the amount of

deductions allowed, whichever is less, is chargeable to tax as business income of the previous year in which the sale took place. If the deduction allowed is less than the aforesaid surplus, the excess of surplus over the deduction allowed is chargeable to tax as capital gains.

- (4) **Bad Debts Recovered** [Sec. 41(4)]
If a bad debt allowed as a deduction in an earlier year is recovered in a subsequent year, it is taxable as deemed business profit in the year of recovery, even if the business or profession, to which the recovery relates, is closed before the year of recovery.
- (5) **Recovery after discontinuance of business or profession** [Secs. 176(3A) and (4)]
If any business or profession is discontinued in any year and any sum is recovered afterwards, it will be deemed to be the income of the recipient and charged to tax in the year of receipt provided that if it had been received before the discontinuance of the business or profession, it would have been chargeable to tax.
- (6) **Withdrawal from Special Reserve** [Sec. 41(4A)]
Where any amount is withdrawn from the special reserve created and maintained by a specified entity [under section 36(1)(viii)] it shall be deemed to be the chargeable profits of the previous year in which such amount is withdrawn from the Reserve Account. Where the amount is withdrawn from the Reserve Accounts in the previous year in which the business is no longer in existence, it will be chargeable to tax as if the business is in existence in that previous year.

Q.9. Shri Chaudhary is the proprietor of a business. His Profit and Loss Account for the year ended March 31, 2021, is as follows :

	₹		₹
To Establishment Expenses	4,800	By Gross Profit	3,50,840
To Rent, Rates & Taxes	2,900	By Interest on Govt. Securities (Gross)	5,400
To General Charges	750	By Rent from House Property	5,400
To Household Expenses	51,730		
To Commission	1,500		
To Discount & Allowance	450		
To Provision for Bad Debts	1,200		
To Postage Charges	270		
To Law Charges	450		
To Advertising	1,550		
To Fire Insurance Premium (for goods)	360		
To Goods and Services Tax	1,450		
To Repairs & Renewals (not for business premises)	630		
To Loss on Sale of Motor-car (used for private purposes)	1,800		
To Life Insurance Premium	1,790		
To Interest on Capital	1,090		
To Audit Fee	300		
To Interest on Bank Loan	1,380		

To Provision for Depreciation	2,500	
To Provision for Income tax	3,900	
To Net Profit transferred to Capital A/c	<u>2,80,840</u>	
	<u>3,61,640</u>	<u>3,61,640</u>

Following further information are given :

- Actual Bad Debts written-off during the year amount to ₹ 550.
- Amount of Income tax actually paid during the year is ₹ 4,200.
- Depreciation allowable is ₹ 1,700 as per Income tax Rules.
- Advertising Expenses include ₹ 550 spent on special advertising campaign to open a new shop in the market.
- Law charges are in connection with the protection of a trademark.
- Shri Chaudhary carries on his business from rented premises, half of which is used as his residence. Rent, Rates and Taxes include ₹ 2,400 paid as the rent of the premises during the year.
- A bank loan is taken for business purposes.

Compute the income from business of Shri Chaudhary and his Gross total income for the Assessment Year 2021-22.

Sol. Computation of Income from Business
(for the Assessment Year 2021-22)

	₹	₹
Net Profits as per Profit & Loss Account		2,80,840
Add : Expenses not allowed :		
Rent of one-half premises	1,200	
Household Expenses	51,730	
Provision for Bad Debts	1,200	
Loss on sale of Motor-car	1,800	
Repairs and Renewals	630	
Life Insurance Premium	1,790	
Interest on Capital	1,090	
Provision for Depreciation	2,500	
Provision for Income tax	3,900	65,840
		<u>3,46,680</u>
Less : Items allowed but not charged :		
Bad Debts	550	
Depreciation	1,700	2,250
		<u>3,44,430</u>
Less : Items not taxable under the business head :		
Interest on Govt. Securities	5,400	
Rent from House Property	5,400	10,800
		<u>10,800</u>
Income from Business		<u><u>3,33,630</u></u>

Computation of Gross Total Income
(for the Assessment Year 2021-22)

	₹	₹
1. Income from House Property (A.V.)	5,400	
Less : 30% of A.V.	1,620	3,780
2. Profits of Business		3,33,630
3. Income from Other Sources (Interest on Securities)		5,400
Gross Total Income		3,42,810

Notes :

1. Expenses incurred on a special advertising campaign to open a new shop in the market are admissible as these are incurred for better marketing of the goods. [Hindustan Commercial Bank Ltd. vs. CIT (1952) 21 ITR 353 (All.)]
2. Law charges are incurred for the maintenance of an existing trademark and hence they are allowed.
3. Repairs and Renewals are not for business premises, hence not allowable as business expenditures.

Q.10. From the following Profit & Loss Account of Sanjay, a sole proprietorship business for the year ended 31st March, 2021, compute his taxable income from business and the gross total income for the Assessment Year 2021-22 :

	₹		₹
To Salary to Staff	15,000	By Gross Profit b/d	2,00,000
To General Expenses	8,000	By Dividend from an Indian	
To Bad Debts	3,000	Agricultural Company	
To Advertisement	5,000	(Gross)	5,000
To Proprietor's Salary	15,000	By Interest on Notified Capital	
To Int. on Proprietor's Capital	3,000	Investment Bonds	1,000
To Reserve for GST	8,000		
To Gratuity to Staff	40,000		
To Donation	12,000		
To Purchase of land	20,000		
To Advance Income tax paid	5,000		
To Depreciation	10,000		
To Legal charges for defending			
a suit for breach of a			
trading contract	1,000		
To Net Profit	61,000		
	2,06,000		2,06,000

Additional Information :

- (1) General Expenses include ₹ 2,000 paid as compensation to an employee whose services were terminated as his continuing in service was considered detrimental to the profitable conduct of the business.
- (2) The assessee has received demand notice of GST for the preceding year amounting to ₹ 8,000 and he has not disputed the liability.
- (3) The gratuity paid had no relation to the service or salary drawn by the staff. It was given on *ad hoc* basis.
- (4) Donation was given to the Chamber of Commerce to work against the threat of nationalisation of the type of business carried on by the assessee. The Chamber collected such donations from several other parties also doing the same type of

business. The Chamber in turn donated money to different parties who exercised their pressure with the Government and ultimately it was averted.

(5) The assessee purchased land in the name of the District Magistrate for constructing houses for its workers. It was to be done by the Government under the subsidised Housing Scheme for industrial workers. The ownership would vest in the Government.

(6) Depreciation is found to be in excess by ₹ 2,000.

Sol. Computation of Taxable Income from Business
(for the Assessment Year 2021-22)

	₹	₹
Net Profit as per Profit & Loss A/c		61,000
<i>Add : Expenses disallowed :</i>		
(i) Proprietor's Salary	15,000	
(ii) Interest on Proprietor's Capital	3,000	
(iii) Advance Income tax paid	5,000	
(iv) Excess Depreciation charged	2,000	
(v) Gratuity	40,000	
(vi) GST Reserve	8,000	73,000
		<hr/> 1,34,000
<i>Less :</i> Interest on Notified Capital Investment Bonds [Exempt u/s 10(15)(iib)]	1,000	
Dividend from an Indian Agricultural Company	5,000	6,000
		<hr/> Income from Business 1,28,000
<i>Income from other Sources :</i>		
Dividend		5,000
		<hr/> Gross Total Income 1,33,000

- Note :** 1. Proprietor's salary, interest on his capital, and Advance Income tax paid are not allowable.
 2. Compensation paid to an undesirable employee is allowable.
 3. Reserve for GST is not to be allowed as the assessee has not paid the amount demanded. (Sec. 43B)
 4. The gratuity is neither based on the salary nor it is according to the terms of service, rather it is paid on *ad hoc* basis. It is held that such payment is not admissible. [Balarama Verma Textile Ltd. vs. CIT (1973) 92 ITR 485 (Mad.)]
 5. Donation to Chamber of Commerce has been given in the interest of the business, as a result of which the nationalisation of his business has been averted. Hence, there was a connection between the donation and the business. It was held admissible under section 37. [Ambala Bus Syndicate Pvt. Ltd. vs. CIT (1974) 95 ITR 343 (Punj.)]
 6. The assessee did not acquire any capital asset as he is not to be the owner of the building to be constructed on the land and the land itself is also not in his name. The expenditure for purchasing land in the name of the District Magistrate is held to be admissible deduction as revenue expenditure. [CIT vs. T.V. Sundaram Iyengar & Sons Pvt. Ltd. (1974) 95 ITR 428 (Mad.)]

Q.11. A.K. Chaudhary runs a drug industry. For the year ending 31st March, 2021 following information is available :

	₹
Net Profits as per P. & L. A/c (after charging following)	9,30,000
1. Employee's Remuneration and Perquisites	1,00,000
2. Contribution to Recognised Provide Fund	10,000

3. Employee's Family Planning Exp.		8,000
4. Professional fees to auditors :	₹	
(1) Audit Fees	18,000	
(2) For Income Tax Purpose	<u>16,000</u>	34,000
5. Guest House Expenses		6,000
6. Donation to Prime Minister's National Relief Fund		2,00,000
7. Books donated to poor students		18,000
8. Rent credited to P. & L. A/c received from quarters let out to employees at concessional rate		26,000
Repairs and maintenance of these quarters		30,000
9. Dividend from an Indian Company (Gross)		60,000
10. Penalty relating to income tax case		13,000
11. Patent purchased by him in 2020-21		28,000
12. Capital Exp. for scientific research (it includes a contribution ₹ 40,000 to National Laboratory)		1,12,000

Provision has been made for depreciation on business assets ₹ 50,000 in Profit and Loss A/c which exceeds by ₹ 10,000 as per Sec. 32 of the Income Tax Act. In Profit and Loss A/c the item general expenses included ₹ 32,000 for travelling expenses of Mr. Chaudhary's commercial visit to Mumbai for 10 days. The amount consists of ₹ 4,000 for Air fare and remaining for hotel bills. For the Assessment Year 2021-22 find out (a) Business Income and (b) Gross Total Income.

Sol.

Computation of Business Income (for the Assessment Year 2021-22)

Net Profit as per P. & L. Account	₹	9,30,000
Add : Items disallowed :		
(i) Donation to P.M.'s National Relief Fund		2,00,000
(ii) Books donated to poor students		18,000
(iii) Penalty		13,000
(iv) Patent's cost after dep. @ 25%		21,000
(v) Excess Depreciation		<u>10,000</u>
		11,92,000
Less : Dividend being non-business income		<u>60,000</u>
	Business Income	<u>11,32,000</u>

Computation of Gross Total Income (for the Assessment Year 2021-22)

Business Income	11,32,000
Income from Other Sources :	
Dividend	<u>60,000</u>
	Gross Total Income <u>11,92,000</u>

Notes:

- Expenses on family planning for employees are deductible u/s 37(1).
- Rent of employee's quarters is assessable under the head 'Profits and Gains of Business or Profession', as such letting out is in business interest.
- Now guest house expenses are fully deductible.
- Now travelling expenses are fully deductible.

Q.12. Shri Arnav Jhaji is reputed lawyer of Meerut. He has prepared the following Income & Expenditure Account for the year ended 31st March, 2021 :

	₹		₹
To Household Expenses	12,000	By Legal fees	1,26,000
To Office Expenses	10,000	By Special Commission	
To Charity	500	appointment fees	1,400
To Telephone Expenses	500	By Cash gifts received from Clients	2,000
To Income tax	900	By House rent	15,000
To Rent	4,000	By Interest on Govt. Securities	3,000
To Gift to daughter	2,000	By Salary as part-time Lecturer	
To Electricity Charges	1,000	in Law	6,000
To Donation to National Defence Fund	1,000		
To Contribution to Public Provident Fund	2,400		
To Salaries	15,000		
To Purchase of Motor-car	60,000		
To Purchase of Furniture	2,000		
To Life Insurance Premium	5,000		
To Motor-car Expenses	6,000		
To Purchase of Typewriter	6,000		
To Excess of Income over Expenditure	25,100		
	<u>1,53,400</u>		<u>1,53,400</u>

Following other particulars were received :

- (a) Shri Arnav lives in one-half of the house and the other half is used for an office. Rent and Electricity charges are in respect of this house.
- (b) One-half of car expenses are for personal use.
- (c) Depreciable Motor-car @ 15%, Typewriter @ 15% and Furniture @ 10%.

Compute his taxable income from business and profession for the Assessment Year 2021-22.

Sol. Computation of Taxable Income from Business and Profession

(for the Assessment year 2021-22)

Gross Professional Earnings :		₹	
Legal Fees			1,26,000
Special Commission Fees			1,400
Gifts from Clients			2,000
			<u>1,29,400</u>
Less : Expenses Allowed :		₹	
Office Expenses		10,000	
Telephone Expenses		500	
1/2 Rent		2,000	
1/2 Electricity Charges		500	
Salaries		15,000	
1/2 Car Expenses		3,000	
Depreciation on :		₹	
Motor-car of ₹ 60,000 @ 15% (one-half)	4,500		
Typewriter of ₹ 6,000 @ 15%	900		
Furniture of ₹ 2,000 @ 10%	200		
		5,600	36,600
		<u>Income from Business and Profession</u>	<u>92,800</u>

Note : Salary as part-time lecturer is assessable under the head 'Salaries'.

Q.13. Shri Ajay Chaudhary furnishes the following information relevant for the Assessment Year 2021-22 :

Profit & Loss Account

	₹		₹
To Office Expenses	45,000	By Gross Profit	3,43,000
To Sundry Expenses	39,000	By Sundry Receipts	11,000
To Entertainment Expenses	15,000	By Bad debts recovered	
To Audit Fees	12,000	(Not allowed earlier)	7,100
To Legal Charges	4,000	By Customs duties recovered	
To Extension of Building	6,000	from the Government	
To Depreciation on Plant and Machinery	23,000	(Allowed earlier as deduction)	32,500
To Salary to Staff	43,000	By Gifts received from father	1,43,000
To Bonus to Staff	36,000		
To Contribution towards Recognised Bonus P.F.	15,000		
To Contribution towards Unapproved Gratuity Fund	4,000		
To Provision for Goods and Services Tax	25,000		
To Goods and Services Tax	38,000		
To Payment to a National Laboratory for scientific research	49,600		
To Net Profit	<u>1,82,000</u>		
	<u>5,36,600</u>		<u>5,36,600</u>

Additional Information :

- (a) Payment to a National laboratory is for the purpose of carrying on approved scientific research, not related to the business. Besides, Ajay Chaudhary purchases a plant of ₹ 30,000 for the purpose of carrying on scientific research related to his business. Neither cost of plant nor depreciation thereon is debited to profit and loss account.
- (b) Depreciation on plant and machinery and extension of building as per income-tax rule is ₹ 19,000.
- (c) Goods and Services Tax of ₹ 38,000 includes interest for late payment of GST ₹ 1,200 and penalty for evading GST ₹ 10,000.
- (d) Provision for GST is however paid on July 10, 2021. Evidence of payment is submitted along with the return of income.
- (e) Salary to staff includes a payment of pension of ₹ 8,000 to the widow of a former employee.

Compute business income of Shri Ajay Chaudhary for the Assessment Year 2021-22.

Sol.

Computation of Income from Business

(for the Assessment Year 2021-22)

	₹	₹
Net Profit		1,82,000
Less : Receipts not taxable :		
Bad debts recovered—disallowed earlier	7,100	
Gift from father	1,43,000	1,50,100
	<u>1,50,100</u>	<u>31,900</u>

Add : Disallowed expenses :

Extension of building—Capital expenditure	6,000	
Excess depreciation (₹ 23,000 – 19,000)	4,000	
Unapproved Gratuity Fund	4,000	
Payment to N.L.	49,600	
Penalty for evading GST	10,000	73,600
		<u>1,05,500</u>

Less : Payment to N.L. (100% of payment is deductible)
Capital expenses on S.R.

49,600	
30,000	79,600
	<u>Income from Business 25,900</u>

Notes : 1. Interest for late payment of GST is deductible.

2. Provision for GST—Amount paid before the due date of furnishing the return, hence, deductible.

3. Pension to the widow (family pension) of a former employee is deductible.

Q.14. Dr. Jyoti is a Medical Practitioner. She gives you the following summary of cash book for the year ending 31.3.2021 :

	₹		₹
To Balance	10,000	By Rent of clinic	18,000
To Consultation fee	60,000	By Purchase of medicines	38,000
To Visiting fee	45,000	By Staff salaries	24,000
To Gifts and presents	8,000	By Surgical equipments	40,000
To Sale of medicine	42,000	By Motor car expenses	8,000
To Dividend from UTI (Gross)	6,000	By Purchase of Motor Car	1,40,000
To Life Insurance maturity	1,00,000	By Household expenses	7,000
To Interest from National Savings Certificates	6,000	By Balance	2,000
	<u>2,77,000</u>		<u>2,77,000</u>

Other information :

(i) 50% of the Motor-car expenses incurred in connection with the profession. Car was purchased in December 2020.

(ii) Household expenses include ₹ 6,800 for life insurance premium.

(iii) Gifts and presents include ₹ 3,000 from relations.

(iv) Closing stock of medicine ₹ 12,000 and on 1.4.2020, opening stock was ₹ 4,000.

Compute her income from profession for the Assessment Year 2021-22.

Sol. Computation of Income from Profession
(for the Assessment Year 2021-22)

Profession receipts :	₹
Consultation fee	60,000
Visiting fee	45,000
Gifts (₹ 8,000 – 3,000)	5,000
Sale of medicines	42,000
	<u>(a) 1,52,000</u>

Expenses :

Rent	18,000
Medicines (4,000 + 38,000 – 12,000)	30,000
Salaries	24,000
Depreciation on Surgical Equipments @ 15%	6,000

Car expenses 50%	4,000
Depreciation on car	5,250
	(b) <u>87,250</u>
Income from Profession (a – b)	<u>64,750</u>

Note : Depreciation on car has been computed as under :

Car has been used for less than 180 days during the P.Y. on ₹ 1,40,000 @ 7.5%	10,500
Less : 50% for personal use	5,250
Depreciation allowable	<u>5,250</u>

Q.15. Discuss the bares of determination of profits and gains of eligible business.

Ans. Determination of Profits and Gains of Eligible Business

The provisions of *section 44AD* are applicable to an eligible assessee who is engaged in eligible business.

The income from such business shall be presumed to be :

(i) 6% of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account during the previous year or before the due date of furnishing the return of income u/s 139(1) in respect of that previous year.

The benefit of 6% presumed income shall also apply to an assessee who receives payment through such other prescribed electronic modes. (*w.e.f.* Assessment Year 2020-21).

(ii) 8% of total turnover or gross receipt during the previous year which is not received as provided in (i).

However, an eligible assessee may declare a sum higher than the aforesaid sum as income actually earned from the eligible business.

Explanation :

(a) **“Eligible assessee”** means :

(i) an individual, HUF or partnership firm, who is a resident but not a limited liability partnership firm; and

(ii) who has not claimed deduction under any of the *sections* 10AA, 80IA, 80IAB, 80IB, 80IBA, 80IC, 80IE, 80JJA, 80JJAA, 80LA, 80QQB, 80RRB.

(b) **“Eligible business”** means :

(i) Any business except the business of plying, hiring or leasing goods carriages referred to in *section 44AE*; and

(ii) Whose total turnover or gross receipts in the previous year does not exceed two crore rupees.

Some other provisions are as under :

(1) When the income is presumed u/s 44AD no deduction under *sections* 30 to 38 shall be allowed against the presumed income as it is presumed that all such deductions have already been allowed.

(2) It shall be presumed that the assessee had claimed the depreciation on the assets used for the purposes of the above business and it had been actually allowed and the written-down value will be calculated accordingly.

(3) Where an eligible assessee declares profit for any previous year in accordance with the provisions of this section and he declares profit for any of the five assessment years relevant to the previous year succeeding such previous year not in accordance with the presumptive

basis, he shall not be eligible to claim the benefit of the provisions of this section for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance with the presumptive basis.

- (4) An eligible assessee to whom the provisions mentioned in (3) are applicable and whose total income exceeds the maximum amount which is not chargeable to income-tax, he has to maintain proper account books, get these audited and the report of the audit must be furnished electronically.
- (5) The provisions of this section shall not apply to :
 - (i) a person carrying on profession as mentioned in *Sec. 44AA*;
 - (ii) a person earning income in the nature of commission or brokerage; or
 - (iii) a person carrying on any agency business.

Q.16. State about the determination of profits and gains of business of plying, hiring or leasing goods carriages.

Ans. Determination of Profits and Gains of Business of Plying, Hiring or Leasing Goods Carriages

(*Sec. 44AE*)

The provision of *section 44AE* are applicable to an assessee, who is engaged in the business of plying, hiring or leasing of goods carriages owning not more than 10 goods carriages at any time during the previous year.

The income of such business shall be presumed to be the aggregate of the profits and gains from all the goods carriages owned by him in the previous year and will be computed as under :

- (i) The presumed income from heavy goods vehicle shall be ₹ 1,000 per ton of gross weight of vehicle or unladen weight, as the case may be, for every month or part of a month during which the heavy goods vehicle is owned by the assessee in the previous year.
- (ii) The profits and gains from each goods vehicle (other than heavy) shall be ₹ 7,500 for every month or part of a month during which the goods vehicle is owned by the assessee in the previous year;

Explanation : "Heavy goods vehicle" means any goods carriage, the gross weight of which exceeds 12,000 kilograms. (12 tons).

However, an assessee may declare a sum higher than the aforesaid sum as income actually earned from such business.

Some other provisions are as under :

- (1) When the income is presumed u/s 44AE no deduction under *sections 30 to 38* shall be allowed against the presumed income as it is presumed that all such deductions have already been allowed.
- (2) It shall be presumed that the assessee had claimed the depreciation on the assets used for the purposes of the above profession and it had been actually allowed and the written-down value will be calculated accordingly.
- (3) Where the assessee is a firm, the salary and interest paid to its partners shall be deducted from the income computed aforesaid subject to the conditions and limits prescribed in *section 40(b)*.
- (4) The assessee shall not be required to maintain accounts under *section 44AA* and get the accounts audited u/s 44AB relating to the aforesaid business.

- (5) If the assessee is engaged in any other business also along with the aforesaid business in computing the monetary limits under *sections 44AA and 44AB* (for other business) the income from aforesaid business shall be excluded.
- (6) The scheme is optional and if the assessee claims that the profits from the aforesaid business are less than the presumed profits he has to maintain proper account books, get these audited and the report of the audit must be furnished electronically.

Q.17. What is meant by written-down value (WDV)? How can you compute WDV of block of assets?

Ans. Meaning of Written-down Value

'Written-down value' means :

- (a) In the case of assets acquired in the previous year, the actual cost to the assessee; and
 (b) In the case of assets acquired before the previous year, the actual cost to the assessee less depreciation actually allowed to him.

The amount of unabsorbed depreciation carried forward is treated as 'depreciation actually allowed'.

Where the income of an assessee derived in part from agriculture and in part from business of the assessee, for computing WDV of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee and the depreciation so computed shall be deemed to be allowed actually during the previous year.

- (c) Depreciation is calculated on the block of assets instead of individual assets. In the case of any block of assets, the written-down value shall be computed as under :
- (i) The aggregate of the W.D.V. of all the assets falling within a 'block' at the beginning of the previous year shall be calculated.
- (ii) Add to it the actual cost of any asset falling in that block which was acquired during the previous year.
- (iii) The sum arrived at in (ii) shall be reduced by the money receivable together with scrap value in regard to any asset falling within that block which is sold, discarded, demolished or destroyed during the previous year. The amount of such reduction cannot exceed the amount arrived at as per (ii) above. If it exceeds the written-down value will be taken as Nil.
- (iv) The balance under (iii) shall be the W.D.V. for computation of depreciation for that previous year.

Note : If a full block of assets is transferred and the money payable is less than the W.D.V. under (iii), the loss shall be treated as a short-term capital loss. When the money is payable, in respect of a full block of assets or its part is more than the W.D.V. under (iii), the excess shall be treated as short-term Capital gains.

Computation of W.D.V. of Block of Assets

	₹
(i) W.D.V. of Block of Assets on 1st day of the P.Y.
(ii) Add : Asset falling in the block purchased during the P.Y.
	(a) _____
(iii) Less : Assets falling in the block sold (including scrap value)
W.D.V. for depreciation
	(b) _____

Note : If selling price including scrap value is more than (a) the deduction shall be allowed equal to (a) and the excess amount shall be the short-term capital gain.

Q.18. From the following information compute the amount of depreciation allowance allowable to Arnav & Co., a Chartered Accountants concern, for the Assessment Year 2021-22 :

Assets	Rate of dep.	W.D.V. on 1.4.2020 ₹
1. Computers	40	1,40,000
2. Typewriters	15	30,000
3. Furniture & Fittings	10	1,00,000
4. Office building	10	5,00,000
5. Staff quarters—Area not exceeding 80 sq. metre	5	15,00,000
6. Purchased a new computer during the previous year ₹ 60,000	—	—
7. Sold old office building for ₹ 15,00,000 and purchased a new office building for ₹ 40,00,000 in Dec., 2020.	—	—
8. Purchased books (annual publications) for professional purposes ₹ 40,000.	40	—

Sol. Computation of Depreciation Allowance
(for the Assessment Year 2021-22)

	₹	₹
I. Block—Depreciation @ 40%		
Computer—W.D.V.	1,40,000	
Purchased	<u>60,000</u>	
	<u>2,00,000</u>	80,000
II. Block—Depreciation @ 15%		
Typewriters—W.D.V.	<u>30,000</u>	4,500
III. Block—Depreciation @ 10%		
Furniture & Fittings	<u>1,00,000</u>	10,000
IV. Block—Depreciation @ 5%		
Staff Quarters—W.D.V.	<u>15,00,000</u>	75,000
V. Block—Depreciation @ 10%		
Office building—W.D.V.	5,00,000	
Purchased new building	<u>40,00,000</u>	
	<u>45,00,000</u>	
Less : Selling price of old building	<u>15,00,000</u>	
	<u>30,00,000</u>	
Dep. at half the prescribed rate. Building acquired during the Previous year and used for less than 180 days during the previous year		1,50,000
VI. Block—Depreciation @ 40%		
Books (annual publications) for professional purposes	<u>40,000</u>	16,000
		<u>3,35,000</u>
	Depreciation Allowance	<u>3,35,000</u>

Q.19. State the rates of depreciation on written-down value method of tangible assets and intangible assets.

Ans. Rate of Depreciation on Written-down Value Method

A. Tangible Assets

Block of Assets

I. Buildings :

	Rates % of WDV w.e.f. 1.4.2017
(1) Buildings which are used mainly for residential purposes except hotels and boarding houses	5

(2)	Buildings other than those used mainly for residential purposes and not covered by (1) and (3)	10
(3)	Buildings acquired after 31.8.2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities	40
(4)	Purely temporary erections such as wooden structure	40
II. Furniture and Fittings :		
	Furniture and fittings including electrical fittings, 'Electric fittings' include electrical wiring, switches, sockets, other fittings and fans, etc.	10
III. Machinery and Plant :		
(a)	General Rate : Applicable to all machinery or plant other than certain specified machines and plants	15
(b)	Special Rates :	
(1)	Motor cars other than those used in a business of running them on hire, acquired during the period from 23-8-2019 to 31-3-2020 and put to use on or before 31-3-2020 (<i>w.e.f.</i> Assessment Year 2020-21)	30
(2)	Motor buses, motor lorries and motor taxies used in a business of running them on hire :	
	(a) acquired during the period 23-8-2019 to 31-3-2020 and put to use on or before 31-3-2020 (<i>w.e.f.</i> Assessment Year 2020-21)	45
(3)	Aeroplanes and aero-engines	40
(4)	Motor-cars (other than those used in a business of running them on hire)	
	(a) acquired or put to use on or after 1st April, 1990 but before 23-8-2019	15
	(b) acquired on or after 23-8-2019 but before 1-4-2020 and put to use before 1-4-2020	30
(5)	Energy Savings Devices	40
(6)	Machinery relating to environment protection and pollution control	40
(7)	Books for professional purposes :	40
	(i) Books being annual publications	40
	(ii) Other books	40
(8)	Books owned by assessee carrying on business in running lending libraries	40
(9)	Containers made of glass or plastic used in refills	40
(10)	Computers (including computer software)	40
(11)	Plant and machinery used in weaving, processing and garment sector of the textile industry (which is purchased under Technology Upgradation Fund Scheme) after 31.3.2001 but before 1.4.2004 and put to use before 1.4.2004)	40
(12)	Plant and machinery acquired and installed after 31.8.2002 in a water supply project or a water treatment system and which is put to use for the purpose of providing infrastructure facility	40

(13)	Life saving medical equipment	40
(14)	Renewable energy devices, such as solar water heaters, solar cookers, windmills, pumps running on wind energy, bio-gas plants, etc.	40

IV. Ships :

(1)	Ocean-going ships	20
(2)	Vessels ordinarily operating on inland waters not being speed boats	20
(3)	Vessels ordinarily operating on inland waters being speed boats	20

B. Intangible Assets

Know-how, patents, copyrights, trademark, licences, franchises or any other business or commercial rights of similar nature (which are acquired on or after 31.3.1998)	25
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Note : w.e.f. 1.4.2021 Intangible Assets exclude Goodwill of a Business Profession.

Notes : 1. Buildings include roads, bridges, culverts, wells and tube-wells.

- A building shall be deemed to be a building used mainly for residential purposes if the built-up floor area thereof used for residential purposes is not less than $66\frac{2}{3}$ % of its total built-up floor area.
- Speed Boat means a motorboat driven by a high-speed internal combustion engine capable of propelling the boat at a speed exceeding 24 km per hour in still water.

Q.20. Dr. Amar Chaudhary is a medical practitioner. Besides his own practice, he works as a part-time physician in a private hospital for which he receives a monthly remuneration. He is also a consultant-physician of ABC Co. Ltd. on a monthly retainer fee.

The doctor maintains a record of his receipts and payments and for the year ended 31st March, 2021, the following information is abstracted therefore :

Receipts :

Consultation fee receipts	2,60,000
Gross Remuneration from the private hospital	1,34,000
Retainer fee from ABC Co. Ltd.	60,000
Interest on bank fixed deposits (nationalised bank)	13,000

Payments :

Rent and electricity charges for the clinic	12,000
Telephone charges	2,400
Printing and Stationery	500
Car maintenance expenses	12,000
Wages of clinical assistant	3,600
Driver's salary	3,600
Life Insurance Premium	2,400

The written-down value of the car and the furniture at the clinic as on 1.4.2020 are noted to be ₹25,000 and ₹2,000 respectively. 20% of the use of the car and the telephone is attributable to the personal and private purposes. Provide for depreciation on car @ 15% and furniture @ 10%.

Compute the gross total income of the doctor for the Assessment Year 2021-22.

Sol. Computation of Gross Total Income
(for the Assessment Year 2021-22)

1. Salaries			₹
Gross remuneration from the private hospital			1,34,000
Less : Standard Deduction			50,000
			84,000
		Income from Salaries	84,000
2. Profits and Gains of Profession :		₹	
Consultation fee		2,60,000	
Retainer fee from ABC Co. Ltd.		60,000	
Gross fee received		3,20,000	
Less : Admissible Expenses :			
Rent & Electricity	₹	12,000	
Telephone charges	2,400		
Less : 20% Attributable to personal use	480	1,920	
Printing and Stationery		500	
Car maintenance	12,000		
Less : 20% Personal use	2,400	9,600	
Wages of clinical assistant		3,600	
Driver's salary	3,600		
Less : 20% Attributable to personal service	720	2,880	
Dep. on car 15% on ₹ 25,000	3,750		
Less : 20% Attributable to personal service	750	3,000	
Dep. on furniture @ 10% on ₹ 2,000		200	33,700
		33,700	
		Income from Profession	2,86,300
3. Income from Other Sources :			
Interest on fixed deposit from a nationalised bank			13,000
		Gross Total Income	3,83,300

Q.21. Shri A.K. Chaudhary is a Chartered Accountant. He has prepared the following income and expenditure account for the year ending 31st March, 2021 :

Income and Expenditure Account

Expenditure	Amount	Income	Amount
	₹		₹
To Office expenses	10,000	By Audit fees	3,70,500
To Employee's salary	5,000	By Gift from Father-in-law	5,050
To Books (other than annual Publications)	500	By Dividends (Gross)	8,000
To Personal expenses	2,17,000	By Profit on sale of an asset	6,450
To Donation to N.D.F.	500	By Tax consultancy fees	2,50,000
To Interest	700		
To Income tax	1,13,300		
To Car expenses	2,000		
To Net Surplus	2,91,000		
	6,40,000		6,40,000

You are required to compute his professional income for the Assessment Year 2021-22 considering the following points :

(a) The car is used equally in official and personal purposes and the depreciation allowed for official work is ₹ 500. (b) ₹ 1,000 domestic servant salary is included

in the employee's salary. (c) Loan has been taken to purchase an office building. (d) Mr. Chaudhary is the owner of a building. Its written-down value is ₹ 80,000 on 1st April, 2020. The building is used for Mr. Chaudhary's office. Besides this furniture cost is ₹ 30,000. Its W.D.V. on 1st April, 2020 is ₹ 20,000. Allowed depreciation @ 10% on building and @ 10% on furniture under Income Tax Act. Allow depreciation on books @ 40%.

Sol. Computation of Income from Profession
(for the Assessment Year 2021-22)

Net Surplus as per I. & E. A/c	₹	₹	2,91,000
<i>Add : Expenses disallowed :</i>			
(i) Salary of domestic servant		1,000	
(ii) Personal expenses		2,17,000	
(iii) Donation of N.D.F.		500	
(iv) Income tax		1,13,300	
(v) Car expenses for personal use (50%)		1,000	
(vi) Books		500	
		<u>3,33,300</u>	
			6,24,300
<i>Less : Allowable expenses not yet charged :</i>			
Depreciation on :			
(i) Car for office use		500	
(ii) Office Building @ 10%		8,000	
(iii) Furniture @ 10%		2,000	
(iv) Books @ 40%		200	
		<u>10,700</u>	
			6,13,600
<i>Less : Income of other heads or Income not chargeable under this head :</i>			
(i) Gift from father-in-law		5,050	
(ii) Dividends		8,000	
(iii) Profits on sale of an assets		6,450	
		<u>19,500</u>	
			Income from Profession <u>5,94,100</u>

Q.22. Suraj Chaudhary is a registered medical practitioner. He has prepared the following Income and Expenditure Account for the year ending 31st March, 2021. You are required to compute his income from profession.

Income and Expenditure Account

	₹		₹
To Household Expenses	1,20,000	By Consultation fees	1,10,000
To Car Purchased	1,30,000	By Visiting fees	1,20,000
To Travelling Exp. (Personal)	4,000	By Gains on Race (gross)	10,000
To Charity & Donations	1,000	By Share in sale proceeds of an	
To Income tax	2,000	ancestral house	34,000
To Salaries	9,200	By Capital gains	6,000
To Gifts to daughter	7,000	By Dividend from U.T.I. (Gross)	5,000
To Establishment Exps.	1,000	By Interest from P.O. Savings Bank	600
To Surgical Equipment	4,000	By Gifts from Father-in-Law	2,000
To Life Insurance Premium	2,000	By Bad Debts recovered (not	
To Interest on Capital	2,000	allowed in earlier years)	2,000
To Surplus	8,700	By Int. on Fixed Deposit (Gross)	1,300
	<u>2,90,900</u>		<u>2,90,900</u>

Rate of Depreciation allowable on car and surgical equipment is @ 15%.

Sol. Computation of Income from Profession
(for the Assessment Year 2021-22)

	₹
Net Surplus as per Income and Expenditure A/c	8,700
Add : Inadmissible Expenses :	₹
Household Expenses	1,20,000
Cost of Car	1,30,000
Travelling Expenses (Personal)	4,000
Charity and Donation	1,000
Income tax	2,000
Gift to daughter	7,000
Surgical Equipments	4,000
Life Insurance Premium	2,000
Interest on Capital	2,000
	<u>2,72,000</u>
	2,80,700
Less : Depreciation not charged :	
15% on Car of ₹ 1,30,000	19,500
15% on Surgical Equipments of ₹ 4,000	600
	<u>20,100</u>
	2,60,600
Less : Income not chargeable to tax :	
(i) Gifts from father-in-law	2,000
(ii) Share in sale proceeds of an ancestral house	34,000
(iii) Interest from P.O. Savings Bank [u/s 10(15)(ii)]	600
(iv) Bad Debts recovered	2,000
(v) Dividend from U.T.I.	5,000
	<u>43,600</u>
	2,17,000
Less : Income not chargeable under this head :	
(i) Capital Gains	6,000
(ii) Interest on fixed deposits (Other Sources)	1,300
(iii) Gains on Race (Other Sources)	10,000
	<u>17,300</u>
	1,99,700
	<u>Income from Profession 1,99,700</u>

Notes : 1. Bad debts recovered (not allowed in earlier years) is not taxable.

2. Gift from father-in-law (relative) is not taxable.

Q.23. Mr. Mayank Singh is a registered medical practitioner. He keeps his books on a cash basis, and his summarized cash account for the year ended 31st March, 2021 is as under :

	₹		₹
To Balance b/d	1,22,000	By Cost of Medicines	10,000
To Loan from Bank for private purposes	3,000	By Surgical Equipments	8,000
To Sales of Medicines	25,250	By Motor-car	1,20,000
To Consultation fees	1,55,000	By Car Expenses	6,000
To Visiting fees	24,000	By Salaries	4,600
To Interest on Govt. Securities	4,500	By Rent of Dispensary	1,600
To Rent from the property (not subject		By General Expenses	300

to local taxes)	3,600	By Personal Expenses	1,11,800
		By Life Insurance Premium	3,000
		By Interest on Loan from Bank	300
		By Insurance of Property	200
		By Balance c/d	71,550
	<u>3,37,350</u>		<u>3,37,350</u>

Compute his income from profession and house property for the Assessment Year 2021-22 taking into account the following further information :

- (a) One-third of motor-car expenses are in respect of his personal use.
 (b) Depreciation allowable on the Motor-car and surgical equipment is @ 15%.

Sol. Computation of Income from Profession and House Property

(for the Assessment Year 2021-22)

1.	Gross Professional earning :	₹	₹
	Sales of Medicines	25,250	
	Consultation fees	1,55,000	
	Visiting fees	24,000	2,04,250
	<u>Less : Expenses allowed :</u>		
	Cost of Medicines	10,000	
	2/3rd Car Expenses	4,000	
	Salaries	4,600	
	Rent of Dispensary	1,600	
	General Expenses	300	
	Surgical Equipment @ 15%	1,200	
	Depreciation on car @ 15% on ₹ 1,20,000 = ₹ 18,000 × 2/3	12,000	33,700
			<u>1,70,550</u>
	Income from Profession		
2.	Income from House Property :		
	Annual Value	3,600	
	<u>Less : 30% of A.V.</u>	1,080	2,520

Notes :

- Income from Interest on Securities is taxable under the head 'Income from Other Sources', hence it has not been shown in the solution.
- Loan is not income. As the loan has been taken for private purposes interest is not allowable as deduction.

Q.24. Mr. Om is a cloth merchant. From the following P & L A/c for the year ended 31st March, 2021 compute his income from business and his gross total income for the Assessment Year 2021-22 :

	₹		₹
To Salaries and Wages	15,000	By Gross Profit	2,70,000
To Rent and Taxes	4,000	By Dividend from UTI (Gross)	4,000
To Domestic Exps.	2,000	By Rent from let out house	10,000
To TDS on Interest	500		
To Income Tax	1,200		
To Postal Charges	1,500		
To Donation	2,500		
To Life Insurance Premium	2,000		
To Audit Fees	1,500		

To Bad Debts Reserve	1,800	
To Bad Debts	2,500	
To Depreciation	5,000	
To Net Profit	<u>2,44,500</u>	
	<u>2,84,000</u>	<u>2,84,400</u>

Other information :

(a) Rent and Taxes include ₹ 2,000 paid as Municipal Tax on house let out.

(b) Value of Life Insurance Policy is ₹ 18,000.

(c) Donation was given to an approved institution.

(d) Permissible Depreciation was ₹ 4,000.

Sol. Computation of Income from Business and House Property

(for the Assessment Year 2021-22)

<i>Income from Business</i>	₹	₹
Net Profit as per Profit & Loss A/c		2,44,500
<i>Less : Rent of house not chargeable under the head business</i>	10,000	
<i>Dividend from UTI</i>	4,000	14,000
		<u>2,30,500</u>
<i>Add : Items disallowed :</i>		
(i) Municipal taxes paid	2,000	
(ii) Domestic expenses	2,000	
(iii) TDS on Interest	500	
(iv) Income Tax	1,200	
(v) Donation	2,500	
(vi) Life Insurance Premium	2,000	
(vii) Bad Debts Reserve	1,800	
(viii) Excess Depreciation	1,000	13,000
		<u>Business Income</u> 2,43,500
<i>Income from House Property :</i>		₹
Rental Income		10,000
<i>Less : Municipal Taxes</i>		<u>2,000</u>
		A.V. 8,000
<i>Less : 30% of A.V.</i>		<u>2,400</u>
		<u>Income from House Property</u> 5,600

Computation of Gross Total Income

(for the Assessment Year 2021-22)

	₹
1. Income from House Property	5,600
2. Income from Business	2,43,500
3. Income from Other Sources : Dividend	<u>4,000</u>
	<u>Gross Total Income</u> 2,53,100

Multiple Choice Questions

Q.1. The term means any benefit, attached to an office or position in addition to salary or wages.

- (a) perquisite (b) accommodation
(c) salary (d) None of these

Ans. (a) perquisite

Q.2. The word means to provide for the future, hence this fund is to provide for the future.

- (a) accommodation (b) provident
(c) dividend (d) None of these

Ans. (b) provident

Q.3. is a payment made by the employer to an employee in appreciation of the past services rendered by employee.

- (a) Provident fund (b) Incentive (c) Gratuity (d) None of these

Ans. (c) Gratuity

Q.4. Whatever pension is received by an employee (government or non-government) after retirement, it is chargeable under the head 'salaries'.

- (a) rent (b) fund (c) salaries (d) None of these

Ans. (c) salaries

Q.5. Encashment of leave standing to one's credit is known as :

- (a) Credit salary (b) Leave salary (c) None of these (d) Both of these

Ans. (b) Leave salary

Q.6. Ordinary resident must stay in India for days during the previous year.

- (a) 60 days (b) 65 days
(c) 70 days (d) Neither of the above

Ans. (a) 60 days

Q.7. A resident must stay in India for 730 days during the previous :

- (a) 6 years (b) 8 years (c) 7 years (d) 9 years

Ans. (c) 7 years

Q.8. A person is said to be of Indian origin if he or his parent were born in :

- (a) undivided India (b) divided India
(c) partitioned India (d) Neither of the above

Ans. (a) undivided India

Q.9. Receipt by a member from HUF is fully exempt :

- (a) True (b) False
(c) Somewhat agree (d) All of the above

Ans. (a) True

Q.10. Income of minor child clubbed with the income of parents gets exemption of :

- (a) ₹ 1500 (b) ₹ 3000 (c) ₹ 4000 (d) ₹ 2000

Ans. (a) ₹ 1500

Q.11. To determine the residential status of HUF, the residential status of :

- (a) member is considered (b) karta is considered
(c) co-parceners is considered (d) Neither of the above

Ans. (b) karta is considered

Q.12. GST is a

- (a) Professional tax (b) Direct tax (c) Indirect tax (d) Service tax

Ans. (c) Indirect tax

Q.13. Transport allowance given by the employer to the employee is exempt up to

- (a) ₹ 1000 p.m. (b) ₹ 1600 p.m. (c) ₹ 1000 p.a. (d) ₹ 1600 p.a.

Ans. (b) ₹ 1600 p.m.

Q.14. Education allowance is exempted for

- (a) One person (b) Four persons (c) Two persons (d) None of these

Ans. (c) Two persons

Q.15. Gratuity received by a government employee is

- (a) Fully exempted (b) Partly exempted
(c) Fully taxable (d) Exempted up to ₹ 1,00,000

Ans. (a) Fully exempted

Q.16. The periodic payment of money for the past service is known as

- (a) Gratuity (b) Pension
(c) Commuted pension (d) Leave salary

Ans. (b) Pension

Q.17. Pension is taxable under head.

- (a) Salary (b) House property (c) Capital gains (d) Other sources

Ans. (a) Salary

Q.18. Which of the following is not included in salary income :

- (a) Commuted pension (b) Uncommuted pension
(c) Family pension (d) Leave salary

Ans. (c) Family pension

Q.19. Dearness allowance is taxable in the hands of

- (a) Govt. employees (b) Non Govt. employees
(c) All employees (d) None of these

Ans. (d) None of these

Q.20. Maximum deduction under section 80CCE is subject to a maximum of :

- (a) ₹ 5,00,000 (b) ₹ 2,00,000 (c) ₹ 1,00,000 (d) ₹ 1,50,000

Ans. (d) ₹ 1,50,000

Q.21. Deduction under section 80D is available on :

- (a) Health Insurance Premium (b) Life Insurance Premium
(c) Education Insurance Premium (d) None of these

Ans. (a) Health Insurance Premium



UNIT-III

Capital Gains

SECTION-A (VERY SHORT ANSWER TYPE) QUESTIONS

Q.1. What do you mean by Capital Asset?

Ans. (a) Property of any kind held by an assessee, whether connected with his business, profession or not. (b) Any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992. (c) Any unit linked insurance policy to which exemption under clause (10D) of section 10 does not apply.

Capital asset may be movable or immovable, tangible or intangible, fixed or floating.

Capital asset includes land, building, plant, machinery, investments, goodwill, leasehold rights, jewellery, shares a manufacturing licence, etc.

Property includes any right in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.

Q.2. Define the term 'Capital gain'?

Ans. Capital gain can be defined as any profit that is received through the sale of a capital asset. The profit that is received falls under the income category. Therefore, a tax needs to be paid on the income that is received. The tax that is paid is called capital gains tax and it can either be long term or short term. The tax that is levied on long term and short term gains starts from 10% and 15% respectively.

Some of the examples of capital assets are jewellery, machinery, leasehold rights, trademarks, patents, vehicles, house property, building, and land.

Q.3. How to calculate capital gains? Explain.

Ans. Depending on the amount of time that the asset has been held, the calculation of capital Gains will vary. Some of the important points that individuals should know when calculating capital gains are mentioned below :

- (i) **Cost of improvement** : If there are any expenses that have been incurred by the seller because of any alterations or additions that have been made to the property. However, any improvements made before 1 April, 2001 cannot be considered.
- (ii) **Acquisition cost** : The amount of money that the seller paid in order to acquire the property.
- (iii) **Full value consideration** : The amount of money that the seller will receive because of the property transfer. Capital gains are charged from the year the transaction was made even if the money was not received in that particular year.

Q.4. What is short-term capital asset?

Ans. Short-term Capital Asset means a capital asset held by an assessee for not more than 36 months immediately preceding the date of its transfer.

Capital gains arising from the transfer of the short-term capital asset is called Short-term Capital Gain.

Q.5. What do you mean by long-term capital assets?

Ans. Long-term Capital Asset means a capital asset held by an assessee for more than 36 months immediately preceding the date of transfer.

Capital gain arising from the transfer of the long-term capital asset is called Long-term Capital Gain.

Exceptions : (1) In the case of listed securities or units of U.T.I. or units of equity oriented fund or zero coupon bond held by the assessee, the long term capital asset will mean such assets held by the assessee for more than 12 months.

(2) If unlisted shares of a company or land or building or both are held by the assessee, the long-term capital asset will mean such asset held by the assessee for more than 24 months.

(3) In Case of Land on Building or both : (i) Transferred up to 31.3.2017–36 months. (ii) If transferred on or after 1.4.2017–24 months.

Q.6. How can you compute short-term capital gains?

Ans. Deduct from the full value of the consideration received or accruing as a result of the transfer of the capital asset the following amounts.

- (i) The cost of acquisition of the capital asset.
- (ii) The cost of any improvement thereto; and
- (iii) expenditure incurred wholly and exclusively in connection with such transfer.

This may be explained in the form of the equation as under.

Capital Gain = Full value of consideration – (Cost of acquisition + Cost of improvement + Selling expenses)

However, the amount paid as securities transaction tax shall not be allowed as a deduction.

Set-off of short-term capital loss : If there is a short-term capital loss on the transfer of a short-term capital asset, such loss can be set-off against any other short-term capital gain or long-term capital gain.

Q.7. What is cost of acquisition?

Ans. Cost of acquisition of an asset is the value for which it is acquired by the assessee. It means that whatever cost is incurred for getting an asset plus all expenses incurred to acquire it is the cost of acquisition. Interest paid on money borrowed for the purchase of a capital asset would constitute part of the cost of acquisition provided such interest has not been deducted under any other provision.

Q.8. Mrs. Kiran an investor, held 1,000 equity shares in a company. The company offered him 500 new equity shares as rights shares at a concessional price on 10th Oct, 2020. She renounced her rights for ₹ 75,000 on 20th Oct, 2020. The market value of the equity shares before the issue of rights shares was ₹ 400 per share and after such issue, it came down to ₹ 350 per share. Compute the amount of capital gains, if any, on the renouncement of his rights.

Sol. Computation of Capital Gains
(for the Assessment Year 2021-22)

Amount received on the renouncement of rights

Less : Cost of acquisition of rights

	₹
	<u>75,000</u>
Short-term Capital Gains	<u>75,000</u>

Note : The capital gain is a short-term capital gain because it has arisen on account of transfer of right to subscribe the new issues. Such right was held by him for less than 12 months before transfer.

Q.9. Miss Ravita purchased a piece of land on 4-1-1998 for ₹50,000. This land was sold by him on 2-9-2020 for ₹ 15,00,000. The market value of land as on 1-4-2001 was ₹ 1,00,000. Expenses on sale were 2% of the transfer price. Compute the capital Gains (taxable) for the Assessment year 2021-22. Assume the Cost Inflation Index for 2020-21 to be 301.

Sol. Computation of Taxable Capital Gains
(for the Assessment Year 2021-22)

	₹	₹
Sales Proceeds of Land	15,00,000	
Less : Expenses incurred @ 2% of Sales	30,000	
	Net Sales Consideration	14,70,000
Less : Index cost of acquisition (₹ 1,00,000 × 301 ÷ 100)		3,01,000
	Taxable Capital Gains	11,69,000

Note : Actual cost in 1998 is ₹50,000 and fair market value on 1.4.2001 is ₹ 1,00,000, which is more than actual cost, Hence, fair market value on 1.4.2001 has been considered for the purpose of indexing the cost.

Q.10. Jyoti purchased a capital asset on Sep. 10, 2018 for ₹ 3,00,000. She converted this capital asset into stock-in-trade as on Aug. 8, 2020. On Aug. 8, 2020 the fair market value of the asset was ₹ 4,50,000. She sold this stock on Jan. 5, 2021 for ₹ 5,50,000. Calculate total taxable income.

Sol. Computation of Taxable Income
(for the Assessment Year 2021-22)

<i>Income from the business & profession</i>		₹
Sale price of stock–Fair market value (₹ 5,50,000 –4,50,000)	₹	1,00,000
<i>Capital gains :</i>	₹	₹
Selling price (being fair market value)	4,50,000	
Less : Cost of acquisition	3,00,000	<u>1,50,000</u>
Short term capital gains	Taxable Income	<u>2,50,000</u>

Q.11. Discuss the term 'Income from other Resources'?

Ans. This is the last and residuary head of income. Any income which is taxable under the Act but does not find a place under any of the first four heads of income (i.e., Salaries, Income

from House Property, Profits and Gains Business or Profession and Capital Gains) will be assessable under this residuary head 'Income from Other Sources'.

Income from other sources can be classified into two ;

(A) Income specified u/s 56(2) or specific income chargeable under this head of income.

(B) Other incomes are chargeable under the head income from other sources.

Q.12. (i) Business income of Mr. Geeta (age 70 years) is ₹ 13,20,000.

(ii) She deposited ₹ 70,000 in PPF and purchased NSC VIII Issue ₹ 50,000

(iii) She paid interest on loan taken from a financial institution for the higher education of his grandson ₹ 1,20,000.

(iv) She spent ₹ 40,000 on medical treatment of disabled dependent.

Computer her total income for Assessment Year 2021-22.

Sol.

Computation of Total Income

(for the Assessment Year 2021-22)

Business income being G.T.I.	₹	₹
Less : Deduction u/s 80C – PPF & NSC		13,20,000
(Max deduction ₹ 1,50,000)	1,20,000	
Deduction u/s 80DD :		
(Medical treatment deduction allowed ₹ 75,000)	75,000	
Deduction u/s 80E :		
(Interest on loan for the higher education of grandson-Not deductible)	—	1,95,000
	Total Income	<u><u>11,25,000</u></u>

Q.13. What is 'Alternate Minimum Tax'?

Ans. AMT is a minimum tax that is leviable alternative to normal tax. Rate of ATM is 18.5% (plus applicable surcharge and cess). AMT is a tax levied on 'adjusted total income' in a Financial Year wherein tax on normal income is lower than AMT on Adjusted total income. So, irrespective of normal tax, AMT has to be paid by taxpayers to whom AMT provisions apply.

Q.14. State point of chargeability of the tax?

Ans. The tax will be levied only upon transfer of the long-term capital asset on or after 1 st April, 2018, as defined in clause (47) of section 2 of the Act.

Q.15. Discuss the method for calculation of long-term capital gains.

Ans. The long-term capital gains will be computed by deducting the cost of acquisition from the full value of consideration on transfer of the long-term capital asset.

Q.16. What will be the cost of acquisition in the case of right share acquired before 1st February 2018?

Ans. The cost of acquisition of right share acquired before 31st January, 2018 will be determined as per section 55(2) (ac). Therefore, the fair market value of right share as on 31st January, 2018 will be taken as cost of acquisition (except in some typical situations), and hence, the gains accrued upto 31st January, 2018 will continue to be exempt.

Q.17. What will be the cost of acquisition in the case of bonus shares acquired before 1st February 2018?

Ans. The cost of acquisition of bonus shares acquired before 31st January, 2018 will be determined as per section 55(2) (ac). Therefore, the fair market value of the bonus shares as

on 31st January, 2018 will be taken as cost of acquisition (except in some typical situations), and hence, the gains accrued upto 31st January, 2018 will continue to be exempt.

Q.18. Whether tax will be deducted at source in case of gains by resident tax payer?

Ans. No. There will be no deduction of tax at source from the payment of long-term capital gains to a resident tax payer.

Q.19. What will be the tax treatment of transfer made on or after 1st April, 2018?

Ans. The long-term capital gains exceeding ₹ 1 Lakh arising from transfer of these asset made on or after 1st April, 2018 will be taxed at 10 per cent. However, there will be no tax on gains accrued upto 31st January, 2018.

Q.20. What is the date from which the holding period will be counted?

Ans. The holding period will be counted from the date acquisition.

SECTION-B (SHORT ANSWER TYPE) QUESTIONS

Q.1. What are the exceptions of the Capital asset?

Ans. **Exceptions of Capital Assets**

The term capital asset does not include the following :

1. **Commercial Goods** : Any stock-in-trade [other than the securities mentioned in (b)], consumable stores or raw materials held for the purposes of his business or profession.
2. **Movable Assets for Personal Use** : Movable assets (including wearing clothes and furniture) held for personal use by the assessee or any member of his family dependent on him. Thus, a car or any other vehicle. Refrigerator, television or laptop or other electrical appliances are included in this.

Exceptions : The following assets will not be treated as a personal asset and liable to pay tax.

Use (i) archaeological collections, (ii) drawings, (iii) paintings, (iv) sculptures, (v) any work of art, (vi) jewellery for personal use.

Jewellery includes :

- (i) Ornaments made of gold, silver, platinum or any other precious metal, whether or not worked or sewn into any wearing apparel.
 - (ii) Precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.
3. **Agricultural Land** : Agricultural land in India, provided it is not situated :
- (i) Within the limits of any municipality or a cantonment board, having a population of 10,000 or more; or
 - (ii) within the area measured aerially specified below,
 - (a) Not being more than two kilometres from the local limits and which has a population of more than ten thousand but not exceeding one lakh; or
 - (b) Not being more than six kilometers from the local limits and which has a population of more than one lakh but not exceeding ten lakh; or
 - (c) Not being more than eight kilometers from the local limits and which has a population of more than ten lakh.

4. **Gold Bonds** : $6\frac{1}{2}\%$ Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Gold Bonds, 1980 issued by the Central Government.

5. Special Bearer Bonds 1991.

6. **Gold Deposit Bonds** : Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificate issued under the Gold Monetisation Scheme, 2015 notified by the Central Government.

Q.2. Ravita installed a new plant for ₹ 20,00,000 on August 31, 2017. She received a grant from the Central Government exclusively for buying the new plant amounting to ₹ 5,00,000. In September 2020, the plant was destroyed by fire. The assessee realised ₹ 2,00,000 from the insurance company and ₹ 10,000 from scrap sale.

Calculate the depreciation up to the Assessment Year 2020-21 and profit/loss for this plant for the assessment year 2021-22 allowing the rate of depreciation at 15%.

Sol.

Calculate of Depreciation
(for the Assessment Year 2021-22)

Cost of Plant on 31.8.2017		20,00,000
Less : Grant received from the Government		5,00,000
	Net Cost	15,00,000
Depreciation @ 15% for the Assessment Year 2018-19		2,25,000
Written-down value on 1.4.2018		12,75,000
Less : Depreciation @ 15% for the Assessment Year 2019-20		1,91,250
Written-down value on 1.4.2019		10,83,750
Less : Depreciation @ 15% for the Assessment year 2020-21		1,62,563
Written down value on 1.4.2020	₹	9,21,187
Less : Amount Received from the insurance company	2,00,000	
Amount received from the sale of scrap	10,000	2,10,000
Loss deemed to be short-term capital loss u/s 50(2) for the Assessment Year 2021-22		7,11,187

Note : Section 50(2) provides that where any block of assets ceases to exist for the reason that all the assets in the block are transferred during the previous year, the income received by such transfer shall be deemed to be short-term capital gain. Naturally, the loss incurred in such a case shall be deemed to be a short-term capital loss. It is assumed, in this case, that this plant was the only asset in this block of assets, and hence the loss has been deemed to be short-term capital loss u/s 50(2).

Q.3. In the following cases determine the taxable capital gains u/s 54 :

	₹
(a) (i) Indexed cost of residential house	3 crore
(ii) House sold in previous year 2020-21	7 crore
(iii) Two new residential houses purchased in previous year 2020-21 cost ₹ 3 crore and ₹ 2 crore	5 crore
(b) (i) Indexed cost of residential house	2.5 crore
(ii) House sold in previous year 2020-21	4.5 crore
(iii) Two new residential houses purchase in previous year 2020-21	₹ 0.75 crore each.

Sol. Computation of Taxation Capital Gains*(for the Assessment Year 2021-22)*

₹

(a) Consideration received	7 crore
Less : Indexed Cost	3 crore
	LTCG 4 crore
Less : Exemption u/s 54 (Residential house purchased)	3 crore
	Taxable Capital Gains 1 crore

Note : Capital Gains exceed ₹ 2 crore, hence assessee is eligible for exemption in respect of one residential house only.

(b) Consideration received	4.5 crore
Less : Indexed cost	2.5 crore
	LTCG 2.0 crore
Less : Exemption u/s 54 (Two residential houses purchased)	1.5 crore
	Taxable Capital Gains 0.5 crore

Note : Capital Gains do not exceed ₹ 2 crore hence, exemption is available in respect of both the residential houses.

Q.4. Mr. Arnav provides the following data regarding his transactions for the sale of his residential house for the Assessment Year 2021-22. Compute the amount of capital gains to be included in the Total Income for the Assessment Year 2021-22.

House purchased in 2001-02	4,50,000
Sold in November 2020	42,00,000
Purchased another residential house in September, 2020	16,00,000
Invested in bonds of NHA of India u/s 54EC in January, 2021	10,00,000

The cost inflation index in 2001-02 was 100 and in 2020-21 it was 301.

Sol. Computation of Taxable Capital Gains*(for the Assessment Year 2021-22)*

₹

Sale proceeds in November, 2020	42,00,000
Less : Indexed cost of acquisition ($₹ 4,50,000 \times 301 \div 100$)	13,54,500
	Long-term Capital Gains 28,45,500
Less : Exemption u/s 54 being the cost of the new house	
Purchased within one year prior to the transfer of his house	16,00,000
	12,45,500
Less : Exemption u/s 54EC	10,00,000
	Taxable Capital Gains 2,45,500

Q.5. Mr. Arvind sells jewellery on June 15, 2020 for ₹ 10,10,000 (cost of jewellery to Mr. Arvind on May 25, 2002 was ₹ 94,500 and brokerage paid on the sale of it is ₹ 10,000). On December 15, 2020, he purchased a residential house for ₹ 5,00,000. On June 15, 2020, he does not own any residential house. The cost inflation index for 2002-03 was 105 and for 2020-21 it was 301. Find out the capital Gains chargeable to tax for the Assessment Year 2021-22.

- (a) Assuming that Mr. Arvind sells the new residential house before December 15, 2023, what will be the taxable capital gains and for which year?
- (b) Assuming that Mr. Arvind purchases any other residential house before June 15, 2022 or constructs any other residential house before June 15, 2023, what will be the taxable capital gain and for which year?

Sol.

Computation of Taxable Capital Gains*(for the Assessment Year 2021-22)*

	₹
Sale Proceeds of Jewellery	10,10,000
Less : Brokerage on sale	10,000
	10,00,000
Less : Indexed cost of acquisition ₹ 94,500 × (301 ÷ 105)	2,70,900
	7,29,100
Less : Exemption u/s 54F $\left(\frac{7,29,100 \times 5,00,000}{10,00,000} \right)$	3,64,550
	3,64,550

- (a) If Mr. Arvind sells the new house before December 15, 2023, then ₹ 3,64,550 being the exemption granted u/s 54F will be treated as Long-term Capital Gain for the year in which the house is sold.
- (b) If Mr. Arvind purchases any other residential house before June 15, 2022 or constructs any other residential house before June 15, 2023, then ₹ 3,64,550 exempted u/s 54F will be deemed to be Long-term Capital Gain for the year in which another house is purchased or constructed.

Q.6. What are the deductions allowable under the Head 'Income from Other Sources'?**Ans. Deductions Allowable under the Head 'Income from Other Sources'**

Ans. The Income chargeable under the head 'Income from Other Sources' shall be computed after making the following deductions :

- (1) In the case of interest on securities/dividend any reasonable sum paid by way of commission or remuneration to a bank or any other person for the purpose of realising such income on behalf of the assessee is deductible.
- (2) Interest on loan taken for the purpose of investment in securities/shares will be deductible if it is actually used for the aforesaid purpose.
- (3) If employees contribution to provident fund, etc., are treated as the income of the assessee (employer) and it is included in his income from other sources, a deduction of the sum credited by the employer to the employee's account in the relevant fund on or before the 'due date', will be allowed under this head.
- (4) In the case of income from letting of machinery, plant or furniture with or without buildings, which is chargeable to tax under the head 'Income from Other Sources' the deductions in respect of the following shall be allowed in the same manner as they are allowed under the head 'Profits and Gains of Business of Profession'.
 - (i) Expenditure incurred regarding current repairs of machinery, plant, furniture or building.

- (ii) Insurance premium paid regarding building, machinery, plant or furniture against the risk of damage or destruction of the assets.
- (iii) Depreciation on building, machinery, plant or furniture.
- (5) In the case of income in the nature of family pension received by the widows or heirs of deceased employee, a deduction of a sum equal to $33\frac{1}{3}\%$ of such income or ₹ 15,000 whichever is less, will be allowed.
- (6) In case of sub-letting of a house, the rent, repairs charges, etc. regarding sub-let portion are deductible.
- (7) Any other expenditure (not being a capital expenditure or personal expenditure of the assessee) incurred wholly and exclusively for the purpose of earning such income.
- (8) From interest received on compensation or enhanced compensation, fifty percent of such income shall be deducted and no other deduction shall be allowed in this respect.

The deduction only for Interest expense u/s 57 shall be maximum 20% of the dividend income or income from units of mutual funds.

Q.7. What are the amounts that are not deductible in computing income under the head 'Income from other Sources'?

Ans. Amounts not Deductible under 'Income from Other Sources'

The following amounts shall not be deductible in computing income under the head 'Income from Other Sources'.

- (1) Any personal expenses of the assessee.
- (2) Any interest is chargeable under this Act, which is payable outside India and has been paid without deduction of tax at source or without paying tax thereon.
- (3) Any sum paid on account of Wealth tax.
- (4) Cash payments exceeding ₹ 10,000/₹ 35,000. Sec. 40A(3) provides for the disallowance of 100% expenditure in respect of which payment is made in a sum exceeding ₹ 10,000/₹ 35,000 otherwise than by an account payee cheque on a bank or by an account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic modes.
- (5) Expenses or losses in connection with income from lottery, crossword puzzles, races including horse races, card games, gambling or betting of any nature. Shall not be deductible in computing the said income. However, this prohibition will not apply in respect of the income of an assessee, being the owner of horses maintained by him for running in horse races, from the activity of owning and maintaining such horses.
- (6) Expenses incurred in relation to exempted income is not deductible.

Q.8. Mr. Ravita is a member of parliament from Agra. During the previous year 2020-21 she had the following income.

- (i) As a member of parliament she received a salary of ₹ 4,000 p.m. and a daily allowance of ₹ 20,000 for attending various sessions.
- (ii) She held the following investments.
 - (a) 10% fixed deposit of ₹ 10,000 is held by him in a bank. Interest is credited annually.
 - (b) she received a dividend of ₹ 500 from a co-operative society.

- (iii) She won ₹ 8,000 in crossword puzzles.
- (iv) On 1st September, 2020 she purchased a plot of land for constructing her house. On account of a shortage of funds, she could not get this house constructed and hence let out the plot at ₹ 150 per month from 1st November, 2020
- (v) She has let machinery and furniture and also building to Mr. Krishna Gopal at a monthly rent of ₹ 5,000. She spent ₹ 1,500 on the repair of machinery, furniture and building during the previous year. Depreciation allowed in respect of these assets for the previous year was ₹ 10,000.
- Compute the taxable income of Mrs. Ravita under the head 'Income from Other Sources'.

Sol. Computation of Taxable Income Other Sources
(for the Assessment Year 2021-22)

		₹
(i) Salary as Member of Parliament	48,000	
(ii) Dividend from co-operative society (No. T.D.S)	500	
(iii) Interest on Fixed Deposit	1,000	
(iv) Winnings from crossword Puzzles	8,000	
(v) Income from the land for 5 months	750	
(vi) Rental income from machinery, furniture & building	60,000	
	Gross Income	1,18,250
Less : Admissible expenses :	₹	
(i) Repair expenses	1,500	
(ii) Depreciation	10,000	11,500
	Taxable Income From Other Sources	1,06,750

Note : Daily Allowance for attending sessions is exempt u/s 10(17).

Q.9. Mrs. Manju particulars of income are as under :

- (a) She took a house on the rent of ₹ 1,000 per month and let it out again for ₹ 1,600 per month. Besides it, she received ₹ 5,000 rent from her ownership house.
- (b) Dividend from an Indian Company ₹ 4000. (Gross)
- (c) Speculation business profit ₹ 6,000 and ₹ 500 from cricket gambling.
- (d) Agricultural income in Pakistan ₹ 10,000 was not brought in India. ₹ 18,000 income from agricultural land situated at Kanpur.
- (e) Salary as an M.L.A. ₹ 30,000 and daily allowances ₹ 4,000.
- (f) Share in H.U.F. income ₹ 8,500.
- (f) Dividend received ₹ 6,000 from Co-operative Society.

Compute income from other sources.

Sol. Computation of Income from Other Sources
(for the Assessment Year 2021-22)

(a) Income from Sub-letting :	₹	₹
Rent received	19,200	
Less : Rent Paid	12,000	7,200

(b) Dividend from as Indian Company	4,000
(c) Cricket Gambling	500
(d) Agricultural Income In Pakistan	10,000
Agricultural Income in Kanpur	Exempt
(e) Salary as an M.L.A. (Daily Allowance is exempt)	30,000
(f) Share in H.U.F. income	Exempt
(g) Dividend from a Co-operative Society	6,000
	Income from Other Sources
	57,700

Notes : (1) Assumed that the assessee is resident in India.

(2) Rent from own house is assessable under the head 'Income from House Property'.

(3) Speculation business profit is assessable under the head 'Profits and Gains of Businesses or Profession'.

(4) Dividend from an Indian Company is taxable (*w.e.f.* Assessment Year 2021-22)

Q.10. During the previous year, Mr. Subhash received the following gifts :

Gifts :	Amount ₹
1. From his spouse	50,000
2. From his friend	1,00,000
3. From his another friend	56,000
4. From brother	65,000
5. Received by a will from grand mother	3,00,000
6. From a friend on marriage	60,000
7. From father's friend	25,000
8. Received house property from a friend (without consideration- stamp duty value)	15,00,000

Sol. Computation of Income from Other Sources
(for the Assessment Year 2021-22)

1. Gift from spouse (Relative)	Exempt
2. Gift under (2) (3) and (7) Exceeds ₹ 50,000 hence taxable (1,00,000 + 56,000 + 25,000)	1,81,000
3. Gift from brother (Relative)	Exempt
4. Gift by a will	Exempt
5. Marriage gift	Exempt
6. House property from friend (Immovable property value exceeds ₹ 50,000)	15,00,000
	Income from Other Sources
	16,81,000

Q.11. Discuss the general principles for deductions from incomes.

Ans. Principles for Deductions from Incomes.

1. From gross total income, deductions shall be allowed under sections 80C to 80U.
2. The aggregate amount of deductions under sections 80C to 80U shall not exceed the gross total income.

However, deductions are not allowed against short-term capital gains specified in Sec. 111A and long-term capital gains.

3. If an Association of Persons a Body of Individuals is entitled to any of the deductions referred to in sections 80G, 80GGA, 80GGC, 80IA, 80IB, 80IC and 80IE, a member of the association of persons is not entitled to claim such deduction again in his own assessment in respect of his share in the income of the association of persons. This is to prevent duplication of deductions.
4. Where deductions under sections 10AA or 80IA to 80RRB have been claimed and allowed against the income specified in these sections for any assessment year, the deduction in respect of such profits and gains shall not be allowed under any other provisions of the Act.
5. Where the assessee fails to make a claim in his return of income for any deduction in sections mentioned in 4, no deduction shall be allowed to him thereunder.

Q.12. From the following information compute the amount entitled to deduction u/s 80C of Income Tax Act for the Assessment Year 2021-22.

1. Premium paid ₹ 5,000 on life policy of his own life.
2. Premium paid ₹ 16,000 on life policy of his major son's life.
3. Premium paid ₹ 1,000 on life policy of his married daughter.
4. Contribution to RPF ₹ 5,000.
5. Contribution to PPF ₹ 4,000.
6. Investments in NSC VIII issue ₹ 10,000.
7. Deposits in Home Loan Account ₹ 8,000.
8. Contribution to ULIP ₹ 5,000.
9. Life insurance policy of ₹ 1,00,000 taken in 2019 on wife's life, the premium paid ₹ 8,000 out of Agriculture Income.

Sol. Computation of Amount Entitled to Deduction u/s 80C
(for the Assessment Year 2021-22)

	₹
(1) LIP on own life	5,000
(2) LIP on major son's life (Qualify for deduction)	16,000
(3) LIP on married daughter's life (Qualify for deduction)	1,000
(4) Contribution to RPF	5,000
(5) Contribution to PPF	4,000
(6) Investments in NSC VIII Issue	10,000
(7) Deposits in Home Loan Account	8,000
(8) Contribution to ULIP	5,000
(9) LIP on wife's life (Qualify for deduction)	8,000
Amount entitled to Deduction	<u>62,000</u>

Note : Now the condition that the payment should be out of taxable income has been removed. However, the qualifying amount shall not exceed the gross total number or ₹ 1,50,000. Whichever is less.

Q.13. Mr. Gill having Gross total income of ₹ 8,00,000, furnishes the following information :

- (a) Deposited ₹ 50,000 in tax saver deposit in the name of his major son in a nationalised bank.
- (b) Paid ₹ 50,000 towards premium on life insurance premium of his married daughter against policy amount of ₹ 4,00,000 taken in 2017.
- (c) Deposited in Sukanya Samriddhi Account ₹ 30,000.
- (d) Contributed ₹ 1,00,000 to P.M. National Relief Fund.
- (e) Donated ₹ 20,000 to a Government Recognized Institution for scientific research. His gross total income does not include any income under the head 'Profits and Gains of Business or Profession'.

Compute the total income of Mr. Gill for the Assessment Year 2021-22.

Sol.

Computation of Total Income
(for the Assessment Year 2021-22)

	₹	₹
(a) Deduction u/s 80C up to ₹ 1,50,000		
(i) Deposit ₹ 50,000 in tax saver deposit account in the name of major son (Does not Qualify for deduction)		
(ii) LIP paid for married daughter ₹ 50,000 (Qualify up to 10% of sum assured)	40,000	
(iii) Deposit in Sukanya Samriddhi Account (Qualify for deduction)	30,000	70,000
(b) Deduction u/s 80G : Contribution to PMNRF (Deduction allowed 100% of contribution)		1,00,000
(c) Deduction u/s 80GGA : Donation for Scientific Research (Deduction allowed 100% donation)		20,000
	<u>Total Deductible Amount</u>	<u>1,90,000</u>
Total Income (₹ 8,00,000 – 1,90,000)		<u><u>6,10,000</u></u>

Q.14. Discuss the procedure of computing total income.

Sol.

Procedure for Computing Total Income

1. First of all ascertain the various incomes which are to be included in total income on the basis of residence.
2. These incomes will be computed according to the various sections of the Act under the heads salaries, income from house property, profits and gains of business or profession, capital gains and income from other sources.

The income of others will also be included u/s 60 to 65 in the appropriate heads while computing the income under various heads.

3. Then the effect will be given to the unabsorbed losses and allowances brought forward from earlier years.
4. From the gross total income (2 minus 3) deductions allowed under sections 80C to 80U will be deducted.
5. The balance (under 4) will be the total income. This will be rounded off as under :

Rounding off of Total Income. The amount of total income computed in accordance with the provision of the Act shall be rounded off to the nearest multiple of ten rupees. (Sec. 288A)

Q.15. Mr. Rohit the following particulars of his income relevant for the Assessment Year 2021-22.

Basic Salary	₹ 25,000 per month
Bonus	₹ 25,000 per annum
Commission	₹ 10,000 per annum
Entertainment allowance	₹ 5,000 per annum

A rent-free unfurnished house has been provided in Chennai ; fair rent of the house is ₹ 60,000 per annum.

Employer has provided free use of a small car for official as well as personal purposes. Car can also be used by the family members of Mr. Rohit.

Employer's Contribution towards Recognised Provident Fund ₹ 39,000 per annum. Contribution of Mr. Rohit towards provident funds ₹ 45,000. Payment of insurance premium by Mr. Rohit on his wife's insurance policy taken on 10.2.2017. (sum assured, ₹ 2,00,000) ₹ 24,000. Payment of insurance premium by Mrs. Rohit on Mr. Rohit's insurance policy ₹ 4,000.

He has received interest on his deposit in the company ₹ 18,500 (Date of payment of interest 30.3.2021).

Determine the total income of Mr. Rohit for the Assessment Year 2021-22.

Sol. Computation of Total Income
(for the Assessment Year 2021-22)

1. Income from Salaries :	₹
Basic Salary	3,00,000
Bonus	25,000
Commission	10,000
Entertainment Allowance	5,000
Value of rent-free house 15% of ₹ 3,40,000	51,000
Car (₹ 1,800 × 12)	21,000
Employer's contribution to R.P.F. in excess of 12% of salary (₹ 39,000 – 36,000)	3,000
	Gross Salary 4,15,600
	50,000
	Taxable Salary 3,65,600
2. Income From other Sources :	20,000
Interest on deposit in the company received,	
Grossed up : (18,500 × 100) ÷ 92.5	20,000

Gross Total Income	3,85,600
	<u>65,000</u>
Total Income	<u>3,20,600</u>

Note : Mrs. Rohit will get the deduction u/s 80C on insurance premium paid by her.

Q.16. Mrs. Anjali an individual, has the following incomes during the previous year 2020-21.

	₹
Gross Income from Salaries	1,05,000
Income from House Property (computed)	37,000
Income from Business	5,20,400
	<u>6,62,400</u>

She paid a life insurance premium of ₹ 5,000 on her own life and contributed 12% to the Recognised Provident Fund. Her employer also contributed a similar amount. Find out the amount of her tax liability for the Assessment Year 2021-22.

Sol. Computation of Total Income and Tax Liability
(for the Assessment Year 2021-22)

	₹	₹
1. Gross Income from Salaries	1,05,000	
Less : Standard Deduction	<u>50,000</u>	55,000
		Income From Salaries
2. Income from House Property		37,000
3. Income from Business		<u>5,20,400</u>
		Gross Total Income
		6,12,400
Less : Deduction u/s 80C		<u>17,600</u>
		Total Income
		<u>5,94,800</u>
Amount Qualifying for deduction u/s 80C :		
Employee's Contribution to R.P.F.		12,600
Life Insurance Premium		<u>5,000</u>
		<u>17,600</u>
Income tax on total income of 5,94,800 :		
Tax on ₹ 2,50,000		Nil
Tax on ₹ 2,50,000 @ 5%		12,500
Tax on ₹ 94,800 @ 20%		<u>18,960</u>
		31,460
Add : Surcharge		<u>Nil</u>
		31,460
Add : Health & Education Cess @ 4%		<u>1,258</u>
		Tax Liability
		<u>32,718</u>
		Rounded off ₹ 32,720

Q.17. From the following particulars compute the total income and tax liability of Mr. Sukhpal, who is 70 years old and disabled, for the Assessment Year 2021-22.

	₹
Income from house property (computed)	70,000
Income from business or profession	10,10,000
Short term capital gains	10,000
Long-term capital loss in respect of assets	15,000
Bank Interest on deposits	14,000

Sol. Computation of Total Income and Tax Liability
(for the Assessment Year 2021-22)

	₹	₹
Income from House Property		70,000
Income from Business		10,10,000
Capital Gains :		
Short-term capital gains		10,000
Long-term capital loss c/f	15,000	
Income from Other Sources :		
Bank Interest		14,000
		<u>14,000</u>
	Gross Total Income	11,04,000
Less : (i) Deduction u/s 80TTB : Bank Interest up to ₹ 50,000	14,000	
(ii) Deduction u/s 80U : Disabled	75,000	89,000
	Total Income	<u>10,15,000</u>
Tax on ₹ 10,15,000		
Tax on ₹ 3,00,000		Nil
Tax on ₹ 2,00,000 @ 5%		10,000
Tax on ₹ 5,00,000 @ 20%		1,00,000
Tax on ₹ 15,000 @ 30%		4,500
		<u>1,14,500</u>
Add : Surcharge		Nil
		1,14,500
Add : Health and Education Cess @4%		4,580
	Tax Liability	<u>1,19,080</u>

Note : LTCL can be set-off only against LTCCG.

Q.18. From the following information compute total income and net tax liability of Mrs. Gudiya for the Assessment Year 2021-22.

	₹
1. Income from House Property (Computed)	95,000
2. Interest on Government Securities	75,000
3. Winning from Lottery	1,00,000
4. Donation to P.M. National Relief Fund by cheque	50,000
5. Salary income (Computed)	3,00,000

Sol. Computation of Total Income and Net Tax Liability
(for the Assessment Year 2021-22)

Salary Income (Computed)		₹
Income from House Property	3,00,000	
Income from Other Sources :	95,000	
Interest on Govt. Securities	75,000	
Lottery winning	1,00,000	
	<u>Gross Total Income</u>	<u>5,70,000</u>
Less : Deduction u/s 80G : Donation	50,000	
	<u>Total Income</u>	<u>5,20,000</u>
Tax on Lottery winning ₹ 1,00,000 @ 30%	30,000	
Tax on other income ₹ 4,20,000 :	₹	
On ₹ 2,50,000	Nil	
On ₹ 1,70,000 @ 5%	8,500	8,500
	<u>38,500</u>	
Add : Surcharge	Nil	
	<u>38,500</u>	
Add : Health & Education Cess @ 4%	1,540	
	<u>Tax Liability</u>	<u>40,040</u>
Less : (i) Tax deducted at Source on winning from Lottery ₹ 1,00,000 @30%	30,000	
(ii) Tax deducted from salary	Nil	30,000
	<u>Net Tax Liability</u>	<u>10,040</u>

Note : (i) Health & Education Cess is not deductible at source on income-tax on lottery income.

(ii) Tax on salary has been computed as under :

Tax on salary (₹ 3,00,000 – 50,000 Donation) = ₹ 2,50,000 Nil

Q.19. Mr. Virat is an employee of the Central Government. He joined on 1st April, 2020. From the following information compute his tax liability for the Assessment Year 2021-22 :

	₹
Salary	10,00,000
D.A.	90,000
H.R.A. (He lives in his own house)	2,20,000

He and the Government contributed 10% and 14% of salary and D.A. to the pension fund. He paid ₹ 11,000 life insurance premium to the L.I.C. of India.

Sol. Computation of Tax Liability
(for the Assessment Year 2021-22)

	₹
Salary	10,00,000
D.A.	90,000
HRA	2,20,000

Contribution by the Govt. in pension fund		1,52,600	
	Gross Salary	14,62,600	
Less : Standard deduction		50,000	
	Income from Salaries being G.T.I.	14,12,600	
		₹	
Less : Deduction u/s 80C : LIP		11,000	
Contribution of employee in pension fund u/s 80CCD		1,09,000	
Contribution of Govt. in pension fund u/s 80CCD up to 14% of salary and D.A. (Deductible)		1,52,600	2,72,600
	Total Income		11,40,000
Tax on ₹ 2,50,000			Nil
Tax on Next ₹ 2,50,000 @ 5%			12,500
Tax on next ₹ 5,00,000 @ 20%			1,00,000
Tax on Balance ₹ 1,40,000 @ 30%			42,000
			1,54,500
Add : Health & Education Cess @4%			6,180
	Tax Liability		1,60,680

Q.20. From the following information compute tax liability of Mr. Anand, a super senior citizen (keeping in view the provisions of Alternate Minimum Tax) for the Assessment Year 2021-22 :

	₹
Pension	6,50,000
Royalty on books for college students	19,00,000
Expenses to earn royalty	1,00,000
Deposit in PPF	1,50,000
Donation to Prime Minister's National Relief Fund by Cheque.	50,000

Sol. Computation of Total Income
(for the Assessment Year 2021-22)

Income from Salaries :		₹	₹
			6,00,000
Pension (6,50,000 – 50,000 S.D.)			
Income from Other Sources :			
Royalty income (₹ 19,00,000 – 1,00,000)			18,00,000
	Gross Total Income		24,00,000
Less : Deduction u/s 80C PPF		1,50,000	
Donation u/s 80G (deductible @ 100%)		50,000	
Deduction u/s 80QQB (Royalty up to ₹ 3,00,000)		3,00,000	5,00,000
	Total Income		19,00,000

Computation of Tax Payable
(for the Assessment Year 2021-22)

	₹
Tax on 5,00,000	1,00,000
Tax on next 5,00,000 @20%	2,70,000
Tax on Balance 9,00,000 @ 30%	3,70,000
Add : Health & Education Cess @ 4%	14,800
Tax Payable (A)	<u>3,84,800</u>

Computation of Adjusted Total Income u/s 115JC
(for the Assessment Year 2021-22)

	₹
Total Income	19,00,000
Add : Deduction u/s 80QQB	3,00,000
Adjusted Total Income	<u>22,00,000</u>

Computation of Alternate Minimum Tax u/s 115JC
(for the Assessment Year 2021-22)

	₹
Tax on ₹ 22,00,000 @ 18.5%	4,07,000
Add : Health & Education Cess @ 4%	16,280
Tax Payable (A) or (B), whichever is greater ₹ 4,23,280.	<u>4,23,280</u>
(B)	<u>4,23,280</u>

Tax payable (A) or (B), whichever is greater ₹ 4,23,280.

Q.21. In respect of the Assessment Year 2021-22, Vinay furnishes the following particulars compute his tax liability :

	₹
1. Cash credit (deemed income u/s 68)	50,00,000
2. Income from transfer of carbon credit	20,00,000
3. Winning from lottery	10,00,000
4. Income from business	5,00,000

Sol. Computation of Tax Liability
(for the Assessment Year 2021-22)

1. Cash Credit- Tax u/s 115BBE @ 60%	30,00,000
Add : Surcharge @ 25%	7,50,000
	<u>37,50,000</u>
Add : Health & Education Cess @ 4%	1,50,000
(a)	<u>39,00,000</u>
2. Transfer of Carbon credit- Tax u/s 115BBG @ 10%	2,00,000
3. Winning of lottery - Tax u/s 115BB @ 30%	3,00,000

4. Income from business - Tax at normal rates :

Tax on ₹ 2,50,000	Nil	
Tax on next ₹ 2,50,000 @ 5%	12,500	12,500
		<u>5,12,500</u>
Add : Surcharge		Nil
		<u>5,12,500</u>
Add : Health & Education Cess @ 4%		20,500
	(b)	<u>5,33,000</u>
	Tax Payable (a + b)	<u>44,33,000</u>

SECTION-C LONG ANSWER TYPE QUESTIONS

Q.1. Discuss the Computation of Capital gains in special cases.

Ans. Computation of Capital Gains in Special Cases

(1) Capital Gains in case of damage or destruction of Capital Asset

Where any person receives at any time during the previous year any money or other asset under any insurance from an insurer on account of damage to or destruction of any capital asset as a result of :

- (i) Flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature, or
- (ii) riot or civil disturbance; or
- (iii) accidentals fire or explosion; or
- (iv) action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),

then, any profits or gains arising from receipt of such money or other asset shall be chargeable to tax under the head "Capital Gains". The income shall be deemed to be the income of the previous year in which such money or other asset is received. For computing capital gains, the value of any money or the fair market value of an asset received on the date of receipt shall be deemed to be the full value of consideration received or accruing as a result of the transfer of damaged asset.

(2) Transfer by way of Conversion of Capital Assets into Stock-in-trade [Sec 45(2)]

The profits or gains arising from the transfer by way of conversion by the owner of a capital asset into stock-in-trade of a business carried on by him, shall be charged to tax under the head 'Capital Gains' in the year in which such stock is sold or otherwise transferred by him. For the purpose of computing the Capital gain in such cases the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of the capital asset. However, the excess of actual sale consideration over the fair market value on the date of conversion is deemed to be a business profit.

(3) Transfer of Securities held with Depository [Sec. 45(2A)]

Where any person has had at any time during the previous year any beneficial interest in securities, then, any profits or gains arising from transfer made by the Depository or participant of such beneficial interest in respect of securities shall be chargeable to tax as the income of the beneficial owner of the previous year in which transfer took place and not of the Depository who is deemed to be the registered owner of securities.

(4) Transfer of Capital Asset to a Firm, AOP or BOI**[Sec. 45(3)]**

Where a partner or a member of the association of persons or body of individuals transfer any asset by way of capital contribution or otherwise to the firm/association, the gains arising to partner/member shall be chargeable to tax as his income of the previous year in which such transfer takes place.

The amount recorded in the books of firm/association as the value of the asset shall be deemed to be full value of the consideration received or accrued.

(5) Transfer by a Firm, AOP or BOI

Where a firm or association of persons or body of individuals transfer a capital asset on its dissolution or otherwise to a partner/member the gains arising to the firm/AOP/BOI shall be chargeable to tax as its income of the previous year in which such transfer takes place. The fair market value of the asset on the date of such transfer shall be deemed to be the full value of consideration received or accrued.

“In case of value of any money or capital asset received by a specified person from a specified entity referred to in sub section (4) of section 45, the amount chargeable to income tax as income of such specified entity under that sub section which is attributable to the capital asset being transferred by the specified entity, calculated in the prescribed manner”. [Sec. 45(4A)]

Any increase in capital balance consequent to revaluation of any asset or self-generated goodwill/other asset should be disregarded. [Section 45(4) and 45(4A), w.e.f. 1.4. 2021]

Taxation of Transfer of Capital Asset or Stock in Trade by a Firm/AOP/BOI (w.e.f. 1.4.2021)**[Section 9B]**

New section 9B has been inserted so as to :

- ❖ Tax the transfer of capital asset or stock in trade by a Firm/AOP/BOI to old partner/member upon reconstitution by retirement and/or admission of partner/member.
- ❖ Profit/loss from this transfer shall be deemed income as Capital Gain or Profits and Gains of Business or Profession as per law in the hands of such Firm/AOP/BOI.
- ❖ Fair Market Value of such capital asset or stock in trade as on transfer date shall be deemed to be the full value of consideration.

(6) Compulsory Acquisition of an Asset and Enhanced Compensation**[Sec. 45(5)]**

Where an asset is compulsorily acquired under any law the capital gains in such a case shall be dealt with as under.

- (a) Capital gains computed at the time of acquisition shall be chargeable to tax of the previous year in which such compensation or part thereof or such consideration or part thereof, was first received.
- (b) The amount of compensation enhanced or further enhanced by any authority or court, it shall be deemed to be the capital gains of the previous year in which such amount is received by the assessee.

Where compensation is received in pursuance of an interim order of any authority or the court, it shall be deemed to be income chargeable of the previous year in which the final order of authority of court is made.

- (c) Where in the assessment for any year, the capital gain arising on transfer of capital asset has been computed under (a) or (b) and subsequently such compensation or

consideration is reduced in an appeal, such assessed capital gain of that year shall be recomputed by taking reduced compensation or consideration.

Explanation : In relation to (b)

- (i) The cost of acquisition and the cost of improvement shall be taken to be nil.
- (ii) Where the assessee expires or for any other reason the enhanced/further enhanced compensation is received by any other person, the other person shall be liable to pay tax on such amount under the head capital gains.

(7) Computation of Capital Gains in case of Specified Agreement [Sec. 45(5A)]

“Specified agreement” means a registered agreement in which a person owning land or building or both agree to allow another person to develop a real estate project on such land or building or both in consideration of share in land or building or both in such project, whether with or without part of the consideration in cash.

Assessee : An individual or HUF, who enters into specified agreement.

Full value of consideration : Stamp duty value of his share in the developed project on the date of issue of completion certificate plus cash consideration, if any.

Capital gains : Full value of consideration less cost of the asset transferred under specified agreement.

Tax Liability : Tax liability of capital gains would arise in the previous year in which certificate of completion for the whole or part of the project is issued by the competent authority.

Transfer of his share in the project on or before the date of issue of a certificate of completion.

Full value of consideration : Stamp duty value or actual consideration, whichever is higher on the date of transfer of asset under the specified agreement.

Capital gains : Full value of consideration less cost of the asset transferred under specified agreement.

Tax liability : Tax liability of capital gains would arise in the previous year in which the asset is handed over to the developer.

(8) Transfer of Units

The difference between the re-purchase price of the units referred to in section 80CCB(2) and the capital value of such units shall be deemed to be the capital gains arising to the assessee in the previous year in which such re-purchase takes place or the plan under which the units were purchased is terminated. “The capital value of such units’ means the amount invested by the assessee in the units.

(9) Computation of Capital Gains on Purchase by Company of its own shares or other specified securities

Where a company purchases its own shares from a shareholder or other specified securities from its holder, then the capital gains shall be chargeable to tax in the hands of the transferor. The capital gains shall be computed as provided in Sec. 48 in the year in which such shares or specified securities are purchased by the company.

(10) Computation of Capital Gains in case of Slump Sale

- (i) Any profits or gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of long-term capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

Provided that any profits or gains arising from the transfer under the slump sale of any capital asset being one or more undertakings owned and held by an assessee for not more than thirty-six months immediately preceding the date of its transfer shall be deemed to be the capital gains arising from the transfer of short-term capital assets.

- (ii) In relation to capital assets being an undertaking or division transferred by way of such slump sale :
- (a) The “net worth” of the undertaking or the division, as the case may be, shall be deemed to be the cost of acquisition and the cost of improvement for the purpose of sections 48 and 49 and no regard shall be given to the provisions contained in the second proviso to section 48;
- (b) Fair market value of the capital assets as on the date of transfer, calculated in the prescribed manner, shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.
- (iii) Every assessee, in the case of slump sale, shall furnish in the prescribed form a report of an accountant Section 50B has been amended w.e.f. 1.4.2020 as to file the required report at least one month prior the due date of furnishing the return of income indicating the computation of the net worth of the undertaking or division, as the case may be, and certifying that the net worth of the undertaking or division, as the case may be, has been correctly arrived at in accordance with the provisions of this section.

‘Slump Sale’ : It means the transfer of one or more *[undertaking by any means] for a lump-sum consideration without values being assigned to the individual assets and liabilities in such sales.

Q.2. Mr. Jugun sold some of his property during the year 1-4-2020 to 31-3-2021 as under :

- (a) Jewellery costing ₹ 80,000 (which was acquired in June 2018) was sold for ₹ 1,00,000 in May 2020. Fair market value on 1-4-2001 ₹ 3,00,000. Cost of improvement made during 2009-10 ₹ 29,600. Expenses on transfer are ₹ 25,000.
- (b) House at Kolkata : Let out for residential purposes. Its sale price on 31-10-2020 ₹ 14,00,000.
- (c) Household furniture costing ₹ 14,000 in 2009 was sold in March 2021 for ₹ 26,000.
- (d) Car was sold on 1-12-2020 for ₹ 45,000 its written down value on 1-4-2020 was ₹ 38,000.
- (e) Self-cultivated land was compulsorily acquired under law for ₹ 8,00,000 on 1-1-2021 and its cost in 2003-04 was ₹ 65,400.

Compute his taxable capital gains. Cost inflation indices are 2001-02-100, 2003-04-109, 2009-10-148 and 2020-21-301.

Sol. Computation of Taxable Capital Gains
(for the Assessment Year 2021-22)

	₹	₹
(a) Jewellery :	1,00,000	
Selling price	80,000	
Less : Cost	S.T.C.G.	20,000

	₹	₹
(b) House :		
Selling price	14,00,000	
Less : Expenses on Transfer	25,000	
	13,75,000	
Less : Indexed Cost of Acquisition		
(₹ 3,00,000 × 301) ÷ 100	9,03,000	
Indexed Cost of Improvement		
(₹ 29,600 × 301) ÷ 148	60,200	9,63,200
		L.T.C.G. 4,11,800
(c) Household furniture–Not Capital asset		
(d) Car–Business asset :		
Selling price	45,000	
less : W.D.V.	38,000	
		S.T.C.G. 7,000
(e) Agricultural land :		
Selling price	8,00,000	
Less : Indexed cost (₹ 65,400 × 301) ÷ 109	1,80,600	
	6,19,400	
		L.T.C.G. Exempt
	Taxable Capital Gains	4,38,800

Note : Any capital gain on compensation received on compulsory acquisition of agricultural land is exempt u/s 10(37).

Q.3. State the specific income that are chargeable to income tax under the Lead 'Income from Other Sources'.

Ans. Income Chargeable under 'Income from their Sources'

The following incomes shall be chargeable to income tax under the head 'Income from Other Sources :

1. Dividends.
2. Income from winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever.
3. Any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set-up under Employees' State Insurance Act, 1948.
4. Income by way of interest on securities.
5. Income from machinery, plant or furniture let on hire if the income is not chargeable to income tax under the head 'Profits and Gains of Business or Profession.
6. Income from letting on hire machinery, plant or furniture and also building, and the letting of the buildings is inseparable from the letting of the said machinery, plant or Profession'.

7. Income received under a Keyman insurance policy including bonus on such policy, if such income is not chargeable to income tax under the head 'Profits and Gains of Business or Profession' or under the head 'Salaries'.
8. Any person receives in any previous year from any person or persons.

Asset	Amount to be included in the income
(a) Any sum of money, without consideration, the aggregate value of which exceeds	The whole of aggregate value of such sum.
(b) Any immovable property.	
(i) Without consideration, the stamp duty value of which exceeds ₹ 50,000.	The stamp duty value of such property.
(ii) For a consideration	The stamp duty value of such property as exceeds such consideration, if the amount of such excess is more than the higher of the following amounts. (a) the amount of ₹ 50,000; and (b) the amount equal to 10% [20% in case of immovable property referred to in the second proviso to sec. 43CA(1) of the consideration.
(c) Any property other than immovable property :	The whole of the aggregate fair market value of such property.
(i) Without consideration, the aggregate fair market value of which exceeds ₹ 50,000;	
(ii) for a consideration which is less than the aggregate fair market value of the property by an amount exceeding ₹ 50,000	The aggregate fair market value of such property as exceeds such consideration.

But the above provisions shall not apply to any sum of money or any property received:

- (a) From a relative; or
- (b) under a will or by way of inheritance; or
- (c) on the occasion of the marriage of the individual ; or
- (d) in contemplation of death of the payer, donor; or
- (e) from any local authority; or
- (f) From any trust or institution registered u/s 12A or 12AA or 12AB (w.e.f. 1.4.2021)
- (g) from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to in Sec. 10 (23C) ; or
- (h) Where the transfer is not regarded as transfer u/s 47 in the cases of amalgamation, demerger or business reorganization; or
- (i) from an individual by a trust created or established solely for the benefit of relative of the individual; or
- (j) from such class of persons and subject to such conditions, as may be prescribed.

Explanation : (A) Property means the following capital asset of the assessee, namely :

- (a) immovable property being land or building or both.
- (b) shares and securities.
- (c) jewellery
- (d) archaeological collections.
- (e) drawings
- (f) paintings.
- (g) sculptures.
- (h) any work of art; or
- (i) Bullion.

(B) Relative means :

- (a) in case of an individual :
 - (i) spouse of the individual
 - (ii) brother or sister of the individual ;
 - (iii) brother or sister of the spouse of the individual
 - (iv) brother or sister of either of the parents of the individual;
 - (v) any lineal ascendant or descendant of the individual;
 - (vi) any lineal ascendant or descendant of the spouse of the individual.
 - (vii) spouse of the person referred to in (ii) to (vi).

(b) in case of HUF, any member of the family.

Suppose Mr. Ramesh is the recipient of the gift (sum of money), the gift received from the following relatives shall be exempt :

- (i) Wife of Ramesh;
- (ii) Brothers or sister of Ramesh;
- (iii) Brother or sister of the wife of Ramesh;
- (iv) (a) Brother or sister of the father of Ramesh;
- (b) Brother or sister of the mother of Ramesh;
- (v) (a) Great grandfather, grandfather and father of Ramesh;
- (b) Son, grandson and great grandson of Ramesh;
- (vi) Great grandfather, grandfather and father of the wife of Ramesh;
- (vii) (a) Brother's wife or sister's husband of Ramesh;
- (b) Brother's wife or sister's husband of the wife of Ramesh;
- (c) Brother's wife or sister's husband of the father of Ramesh;
- (d) Brother's wife or sister's husband of the mother of Ramesh;
- (e) Great grandmother, grandmother and mother of Ramesh;
- (f) Son's wife, grandson's wife, great grand son's wife of Ramesh.
- (g) Great grandmother, grandmother and mother of the wife of Ramesh.

9. Interest received on compensation or on enhanced compensation shall be deemed to be the income of the previous year in which it is received.
10. Where a closely held company issues shares to a resident person for a consideration exceeding the face value of such shares, the deemed income shall be considered received less fair market value of the shares. The tax leviable on such income is popularly known as "Angel Tax."

However, this provision shall not apply where the consideration for the issue of shares is received (i) by a venture capital undertaking from a venture capital company or a

venture capital fund or specified fund ; or (ii) by a company from a class or classes of person as may be notified by the Central Government.

Explanation : Fair market value of the shares shall be the value :

- (i) as determined in accordance with prescribed method; or
- (ii) as determined on the basis of assets, including intangible assets being goodwill, know-how, Patents, Copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, on the date of issue of shares, whichever is higher.

11. Any sum of money received as an advance in the course of negotiations for the transfer of a capital asset and such negotiation fails, the amount so forfeited.
12. Any compensation or other payment due to or received by any person in connection with the termination of his employment or the modification of the terms and conditions relating thereto shall be chargeable to income-tax under the head "Income from Other Sources".

Q.4. Explain the term "Dividend" as per Income Tax Act.

Ans.

Meaning of Dividend

Meaning of Dividend in common use : In ordinary language, dividend means the sum received by a shareholder of a company on the distribution of its profits, whether out of taxable income or tax-free income. It is immaterial whether it is received in cash or in kind.

Definition of Dividend :

The following distributions or payments by a company to its shareholders are deemed as dividends to the extent of accumulated profits of the company.

- (a) Any distribution which entails the release of all or any of the assets of the company;
- (b) Any distribution of debentures or deposit certificates or bonus shares to preference shareholders.
- (c) Any distribution on its liquidation.
- (d) Any distribution on the reduction of its capital.
- (e) Any payment by a closely held company by way of advance or loan to a shareholder (being a person who is the beneficial owner of shares) having at least 10% of the voting power of to any concern in which such shareholder is a member or a partner and in which he has a substantial interest.

If trade advance is given to shareholder or concern out of accumulated profits, it shall not be treated as deemed dividend u/s 2(22) (e)

[Circular No. 19/2017, Dated 12.06.2017]

Dividend does not include the following : (i) A distribution made on the liquidation of a company or on the reduction of its capital in respect of preference shares issued for full cash consideration, as the holder of these shares is not entitled in the event of liquidation to participate in the surplus assets.

- (ii) A distribution made on the liquidation of a company or on the reduction of its capital in so far as such distribution is attributable to the capitalized profits of the company representing bonus shares allotted to its equity shareholders during the financial year 1964-65.

- (iii) Any advance or loan given to a shareholder by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company.
- (iv) Any dividend paid by a company which is set-off by the company against the whole or any part of any sum previously paid by it as advance or loan referred to above in clause (e).
- (v) Where a company transfers its assets to another company in a scheme of amalgamation, such transfer is not regarded as a 'distribution' by the company of its accumulated profits to its shareholders even though its accumulated profits are embedded in the assets so transferred.
- (vi) The payment made by a company on purchase of its own shares from a shareholder in accordance with the provisions of sec 68 of the Companies Act, 2013.
- (vii) Any distribution of shares pursuant to a demerger by the resulting company to the shareholders of the demerged company (whether or not there is a reduction of capital in the demerged company).

Q.5. What are the major types of securities ?

Ans.

Types of Securities

Securities are of four types :

- (i) **Tax-free Government Securities :** These securities are those, the interest on which is fully exempt from tax under section 10(15). Interest on such securities is neither included in total income nor it is taxed.

Interest on the following securities, bonds, deposits etc. is fully exempt from tax :

(A) For all Assessees :

- (i) 12-years National Savings Annuity Certificates.
- (ii) National Defence Gold Bonds, 1980.
- (iii) Special Bearer Bonds, 1991.
- (iv) Treasury Savings Deposit Certificates (10 Years).
- (v) Post Office Cash Certificates (5 Years).
- (vi) National Plan Certificates (10 Years).
- (vii) National Plan Savings Certificates (12 Years).
- (viii) P.O. National Savings Certificates (12 Years/7 Years).
- (ix) P.O. Savings Bank Account :
 - (a) Individual account—Maximum exemption limit ₹ 3,500.
 - (b) Joint account—Maximum exemption limit ₹ 7,000.
- (x) P.O. Cumulative Time Deposit Account (15 years).
- (xi) Fixed Deposit Scheme governed by the Government Savings Certificates (Fixed Deposit) Rules, 1968.
- (xii) Fixed Deposit Scheme governed by the Post Office (Fixed Deposit) Rules, 1968.
- (xiii) Special Deposit Scheme, 1981.

(xiv) Public Account in P.O. (Up to ₹ 5,000) [Notification No. G.S.R. 607(E) dated 9.6.1989 ITR 178]

(xv) Gold Deposit Bonds, 1999.

(xvi) Bonds issued by the local authority and specified by the Central Government.

(B) For Individuals and H. U.F. : Interest on 7% Capital Investment Bonds.

(C) Interest on notified bonds or debentures of public sector companies.

(D) Interest on securities held by the Welfare Commissioner of Bhopal Gas Victims, in the Reserve Bank.

(ii) Less-Tax Government Securities : Such securities are issued either by the Central Government or a State Government. These are taxable securities, but no tax is deducted at source on such securities. Hence, the interest on such securities will not be grossed up. [Sec. 193 item (iv)]

Exception : Tax shall be deducted at source on interest on Savings (Taxable) Bonds, 2003. if the interest payable exceeds ₹ 10,000 during the financial year.

(iii) Tax-free Non-Government Securities : These are issued by a local authority or statutory Corporation or a company, in the form of debentures or bonds. Really speaking, their interest is not tax-free because tax due on this interest is payable by the company or local authority or corporation concerned. These are called tax-free because the assessee has not to pay tax on it from his own pocket. The tax paid by the company on this interest is deemed to have been paid on behalf of the assessee, hence the amount of tax paid on any interest due to an assessee is added up in his interest income, *i.e.*, the interest due to an assessee is grossed up and then this grossed up amount is included in his income. The amount of tax paid by the company on this interest is deducted from the total tax payable by the assessee. For example, if a company has issued 10% Tax-free Debentures, the debenture holder will receive the entire amount of interest calculated at 10% but the amount to be included in the income of the debenture holder will be the amount actually received by him as interest plus income tax thereon paid by the company.

(iv) Less-Tax Non-Government Securities : These may be called "Taxable Securities". In the 'case of these securities, income tax is deducted at source on the amount of interest calculated at the percentage stated on the securities and balance of the amount of interest left after deduction of the aforesaid income tax is paid to the security-holder.

If the rate percent of interest is given it is not grossed up as it is already the gross amount of interest and income tax is to be deducted therefrom.

If in the case of these securities, the net amount of interest received is given, it has got to be grossed up.

In any case, it is the gross amount of interest that is included in the income of an assessee. The following are the rules for grossing up interest on securities :

1. If the rate of interest is given, only the interest on tax-free commercial securities is grossed up and interest on all other securities is not grossed up.
2. Interest on tax-free commercial securities is always grossed up whether its rate percent is given or the amount received is given.
3. Interest on less-tax securities is grossed up when the amount received is given.

Q.6. Mrs. Pooja is resident for Income tax purposes and his estimated total income for the financial year 2020-21 will not exceed the minimum amount liable to income tax (₹ 2,50,000). She has sent this declaration duly certified by the Assessing Officer in the beginning of the year to each one of the officers responsible for paying interest on the following securities held by him along with the particulars of these securities :

- (a) ₹ 74,000, 10% Tax-free Debentures of a Textile Company.
- (b) ₹ 55,500, 10% Tax-free Debentures issued by Rajasthan Financial Corporation.
- (c) ₹ 25,000, 5% U.P. Government Loan.
- (d) ₹ 12,000, 5% Debentures of Delhi Development Authority.
- (e) ₹ 1,48,000, 5% Tax-free Debentures of Mahendra and Mahendra Company listed in a recognized stock exchange.

Bank charged 2% commission on the amount of interest collected.

“Calculate her taxable income under the head ‘Income from Other Sources’ for the Assessment Year 2021-22. Interest is payable in each case on 30th June and 31st December.

Sol. **Computation of Taxable Income from Other Sources**
(for the Assessment Year 2021-22)

Interest on Govt. Securities :	₹
(i) 5% U.P. Govt. Loan	1,250
Other Securities :	
(ii) 10% Tax-free Debentures of a Textile Co. $7,400 \times (100 \div 92.5)$	8,000
(iii) 10% Tax-free Debentures of Raj. Financial Corporation $5,550 \times (100 \div 92.5)$	6,000
(iv) 5% Debentures of D.D.A.	600
(v) 5% Tax-free Debentures of Mahendra and Mahendra co. $7,400 \times (100 \div 92.5)$	8,000
	23,850
Less : Collection Charges @ 2% on ₹ 22,200	444
Taxable Income from Other Sources	23,406

Notes : 1. On the basis of a declaration submitted by Mrs. Pooja tax shall not be deducted at source and the bank shall charge commission on the amount collected ₹ 22,200. The amount has been computed as under :

(i) U. P. Govt. Loan	1,250
(ii) Debentures of Textile Co.	7,400
(iii) Debentures of Raj. Financial Corporation	5,550
(iv) Debentures of D.D.A.	600
(v) Debentures of Mahendra & Mahendra Co.	7,400
	<u>22,200</u>

2. Tax-free and debentures of Textile Company are grossed up @ 7.5% T.D.S.
3. Rajasthan Financial Corporation is a Statutory Corporation and the debentures of Mahendra and Mahendra Co. are listed, hence these are grossed up @ 7.5%—T.D.S.
4. Tax shall not be deducted on D.D.A. debentures because the assessee has filed declaration duly certified by the Assessing Officer.
5. Tax is not deducted at source on the securities issued by the Central Government or a State Government.

Q.7. The following are the particulars of the income of Arnav Chaudhary who is employed in a textile mill company at Jaipur for the year ended 31st March, 2021 :

- (a) Salary at ₹ 16,000 per month and his travelling allowance for going on tours for the year amounted to ₹ 2,800.
- (b) He contributed @ 13% to his Recognised Provident Fund to which the Company contributed an equal amount. The interest on his provident fund amounted to ₹ 4,500.
- (c) He owns two bungalows one of which is let out at ₹ 2,000 per month and the other is occupied by him for his residence, the annual rental value of the same being ₹ 1,960. He has paid ₹ 200 as ground rent and insurance charges in respect of the first bungalow and ₹ 150 in respect of the second. The municipal taxes paid by him in respect of the two bungalows amounted to ₹ 4,000 and ₹ 1,800 respectively and he spent ₹ 3,000 on white-washing and petty repairs in respect of both the bungalows.
- (d) He received ₹ 8,500 as interest on Government Securities and ₹ 4,475 as dividend from a domestic company.
- (e) He has insured his life in 2016 and pays an annual premium of ₹ 2,000 on his policies of ₹ 30,000.

Compute his total income for the Assessment Year 2021-22.

Sol.

Computation of Total Income
(for the Assessment Year 2021-22)

	₹	₹
1. Income from Salaries :	1,92,000	
Salary		
Employer's Contribution to RPF in excess of 12% of salary	1,920	
	1,93,920	
Less : Standard deduction	50,000	1,43,920
2. Income from House Property		
G.A.V. (Rent of House let)	24,000	
Less : Municipal Taxes	4,000	
Annual Value	20,000	
Less : 30% of A.V.	6,000	
	14,000	
Annual Value of Self-occupied house	Nil	14,000
3. Income from Other Securities		
(i) Dividends	4,475	
(ii) Interest on Govt. Securities	8,500	12,975
	Gross Total Income	1,70,895
Less : Deduction u/s 80C (₹ 24,960 + 2,000)		26,960
	Total Income	1,43,935

Notes : (1) Travelling allowance for tours is exempt u/s 10(14) (i).

(2) Tax is not deductible at source on interest on Government Securities. Hence, interest has not been grossed up.

Q.8. Shri Aarav Chaudhary working in Western India Limited, Mumbai, has furnished the following details of his income for the year ended March 31, 2021:

- (i) Salary ₹ 12,000 per month.
- (ii) Bonus equal to six months' salary.
- (iii) Transport Allowance (for coming to the office and going back to his residence) at ₹ 650 per month.
- (iv) Entertainment Allowance at ₹ 500 per month.
- (v) Received house rent allowance of ₹ 3,000 per month from the employer, but he paid a rent of ₹ 4,000 p.m.
- (vi) Personal medical bills of ₹ 32,200 were reimbursed by the employer. His treatment has been done in a private nursing home not belonging to the employer.
- (vii) His contribution to the company's Recognised Provident Fund is ₹ 18,000 and the employer contributes an equal amount. The interest credited to the Provident Fund Account @ 9.5% per annum, ₹ 12,000.
- (viii) Interest on Government Securities ₹ 13,000.
- (ix) Income from units of Mutual Fund ₹ 5,500 Gross.
- (x) Interest on Post Office Savings bank ₹ 6,500.
- (xi) Donation paid to Prime Minister's Drought Relief Fund ₹ 2,500 by cheque.
- (xii) Donation paid to the Government for the promotion of family planning ₹ 2,000.
- (xiii) Life Insurance Premium paid during the year ₹ 4,200.

Compute the total income of Aarav Chaudhary for the Assessment Year 2021-22 and, also state the amount entitled to deduction u/s 80C.

Computation of Taxable Income from Other Sources

(for the Assessment Year 2021-22)

	₹	₹
1. Income from Salaries :		
Salary	1,44,000	
Bonus	72,000	
Entertainment Allowance	6,000	
House Rent Allowance	2,400	
Employer's contribution in excess of 12%	720	
Transport Allowance	7,800	
Medical Bills	32,200	
	2,65,120	
Less : Standard deduction	50,000	2,15,120
2. Income from Other Sources :		
Interest on Securities	13,000	
Interest on P.O. Savings Bank (₹ 6,500 – 3,500 exempt)	3,000	
Income from M.F.	5,500	21,500
	Gross Total Income	2,36,620

Less : Deductions :

(i) Under Section 80C : RPF and LIP		22,200	
(ii) Under section 80G :			
Qualifying Amount ₹ 4,500	₹		
50% of ₹ 2,500	1,250		
100% of ₹ 2,000	2,000	3,250	
(iii) Under section 80 TTA :			
Interest on Saving Bank up to ₹ 10,000		3,000	28,456
		Total Income	2,08,170
Amount entitled to deduction u/s 80C :			
Contribution to R.P.F.			18,000
Life Insurance Premium			4,200
			22,200

Notes : 1. House Rent Allowance. The least of the following alternatives is exempt.

House Rent Allowance	36,000
Excess of rent paid over 1/10th of salary (₹ 48,000 – 14,400)	33,600
1/2 of Salary (1/2 of ₹ 1,44,000)	72,000
The least amount is ₹ 33,600, hence taxable part of house rent allowance ₹ 36,000	33,600 ₹ 2,400

2. Donation to Prime Minister's Drought Relief Fund is fully qualified for deduction u/s 80G but deduction is admissible @ 50% of the amount of donation. Donation for promoting family planning is within 10% of total income, hence the whole of ₹ 2,000 qualifies for the deduction and in this 100% deduction is permissible, hence whole of ₹ 2,000 have been deducted.

3. Reimbursement of medical bills for employee's treatment is not exempt *w.e.f.* the Assessment Year 2019-20.

Q.9. Vinod a resident individual retired from AB Co. Ltd. on 1st February, 2021 after 20 years and 9 months of services. He joined PQ Co. Ltd. on the same day, i.e., 1st February, 2021 and remained in service till 31st March, 2021, when he furnished the following information.

Salary and Allowances from 1.4.2020 to 31.1.2021 from AB Co. Ltd. :

Salary and Allowances from 1.4.2020 to 31.1.2021 from AB Co. Ltd.	₹
Basic Salary	8,000 p.m
Dearness Allowance (under the terms of employment)	1,000 p.m.
Commission calculated @ 4% on turnover of ₹ 1,00,000 achieved by Vinod	4,000
Gratuity received (not covered by the Payment of Gratuity Act, 1972)	1,05,000 p.m.
Salary and Allowance from PQ Co. Ltd.	
Basic Salary	6,000 p.m.
Entertainment Allowance	800 p.m.
Fixed Medical Allowance	200 p.m.
House Rent Allowance	500 p.m.
Leave Salary received.	3,000

Other information

Vinod resides in his own house throughout the year, on which municipal tax ₹5,000 has been paid during the year.

Vinod is also the partner of XYZ Co., a partnership firm assessed as a firm such and receives a share income of ₹ 11,140 from the firm during the previous year (it does not include remuneration and interest). He incurs a loss of ₹ 4,820 from a speculation business carried on during the year.

Vinod received ₹ 2,500 as interest on Post Office Savings Bank Account and ₹ 1,500 as dividend from a company incorporated in England. Interest on deposits in companies in the name of his minor son amounted to ₹ 4,000.

Vinod paid a premium of ₹ 16,000 on the policy (taken in 2017) of ₹ 1,40,000 on the life of his minor child. Contribution to an approved superannuation fund and the Jeevan Dhara Scheme of the LIC amounted to ₹ 7,500 and ₹ 4,500 respectively.

Compute Vinod's total income for the Assessment Year 2021-22.

Sol.

Computation of Total Income
(for the Assessment Year 2021-22)

Income from Salaries :		₹	
AB Co. Ltd. (8,000 × 10)	80,000		
PQ Co. Ltd. (6,000 × 2)	12,000	92,000	
Dearness Allowance (1,000 × 10)		10,000	
Commission From AB Co.		4,000	
Entertainment Allowance (800 × 2)		1,600	
Fixed Medical Allowance (200 × 2)		400	
Gratuity		11,000	
Leave Salary encashed while in service Net Exempt		3,000	
House Rent Allowance (500 × 2)		1,000	
	Gross Salary	1,23,000	
Less : Standard deduction		50,000	
	Taxable Salary	73,000	
Income from House Property : Self occupied house		Nil	
Income from Business : Loss from Speculation Business	-4,820		
Income from Other Sources :			
Interest on Postal Savings Bank (Exempt upto ₹ 3,500)		Exempt	
Dividend from a foreign company		1,500	
Interest on deposits in minor's name	4,000		
Less : Deduction u/s 10(32)	1,500	2,500	
	Gross Total Income	77,000	
Less : Deduction u/s 80C		26,000	
	Total Income	<u>51,000</u>	

1. Regarding gratuity, the least of the following is exempt : ₹
- | | |
|--|-----------|
| (a) $1/2$ month's salary for each completed year of service $1/2 \times 20 \times (8,000 + 1,000 + 400)$ | 94,000 |
| (b) Gratuity received | 1,05,000 |
| (c) Maximum limit | 20,00,000 |
- (Salary includes D. A. if given under terms of employment and also commission based on fixed percentage" of turnover achieved through an employee. Hence, for this purpose D.A. and commission have been included in salary.
Hence ₹ 94,000 is exempt and the balance of ₹ 11,000 is taxable.
2. Since Vinod resides in his own house, no exemption will be given out of the house rent allowance.
3. Leave salary during the service is not exempt.
4. Share income from the firm is totally exempt.
5. Speculation loss cannot be set-off against any other income and has to be earned forward for set-off against profits and gains in speculation business only.
6. Qualifying amount u/s 80C has been computed as under : ₹
- | | |
|----------------------------------|---------------|
| (a) LIP—10% of sum assured | 14,000 |
| (b) Approved superannuation fund | 7,500 |
| (c) LIC—Jeevan Dhara Scheme | 4,500 |
| | <u>26,000</u> |

Q.10. Rajan owns a big house. The house has three independent residential units : Unit 1 (50% of the floor area) is let out for residential purpose on a monthly rent of ₹ 16,000 (this unit is, however, used by him for his residential, purpose from Jan. 15, 2021 to March 15, 2021). A sum of ₹ 1,000 could not be collected from the tenant. Unit 2 (25 per cent of the floor area) is used by him for the purpose of his residence, while Unit 3 (the remaining 25 per cent) is used by him for the purpose of his business. Other particulars of the house are : Municipal Valuation : ₹ 3,84,000; municipal taxes (paid) : ₹ 32,000; repairs : ₹ 40,000; ground rent: ₹ 16,000; land revenue (paid) ₹ 9,800; insurance premium: ₹ 16,000 and interest on capital borrowed for payment of municipal tax : ₹ 14,000. Income of R from business is ₹ 4,61,200 (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 1,600 on the one-fourth portion of the house used for business).

Determine the total income of Ranjan for the Assessment Year 2021-22.

Sol. Computation of Total Income
(for the Assessment Year 2021-22)

	₹	₹
Income from House Property :		
Unit I (Let out : 50% of floor area) :		
Municipal value	1,92,000	
Fair rent	—	
Standard rent	—	
Expected rent	1,92,000	
Rent received	1,59,000	

G.A.V. (Expected rent or rent received, whichever is higher)		1,92,000
Less : Municipal Tax		16,000
	Net Annual Value	1,76,000
Less : Standard deduction 30% of NAV		52,800
Income of unit I		1,23,200
Unit II (Self occupied 25%)	Net Annual Value	Nil
Less : Deduction		Nil
Income of Unit II		Nil
Unit III (used for own business 25%)		—
Not assessable under this head of income		
	Income from House Property (a)	1,23,200
Income from Business		4,61,200
Less : Municipal tax 25%		8,000
Repairs 25%		10,000
Ground rent 25%		4,000
Land revenue 25%		2,450
Insurance premium 25%		4,000
Interest 25%		3,500
Depreciation		1,600
		33,550
	Income from Business (b)	4,27,650
	Total Income (a + b)	5,50,850

Q.11. Given below is the Income and Expenditure Account of Surya Kumar Yadav, a lawyer for the Assessment Year 2021-22 :

Income and Expenditure Account

	₹		₹
To Household expenses	1,07,000	By Legal fees	2,60,000
„ Office expenses	5,000	„ Special commission	5,000
„ Donation to N.D.F.	1,500	„ Gains on race course	3,000
„ Charity	400	„ Long-term capital gains	1,80,000
„ Short-term capital loss	1,300	„ 1/2 share of profit in a firm	4,400
„ Income tax	600	„ Interest on advance	500
„ Share of loss in a firm	700	„ Presents from clients	600
„ Gratuity to one of his disabled clerk	500	„ Bank interest on F.D.	2,500
„ Net income	3,40,600	„ Interest on 12-years National Savings Plan Certificates	400
		„ Director's fees	500
		„ Dividend from Co-operative Society	700
	<u>4,57,600</u>		<u>4,57,600</u>

Surya Kumar Yadav is also an M.P. and has drawn salary @ 4,000 p.m. Daily Allowance drawn by him ₹ 30,000 in the year. He claims a deduction of ₹ 12,000 from salary on account of his office expenses. During the year his residential

house was burnt by fire. The house had cost him ₹ 40,000 in 1996. Its fair market value on 1.4.2001 was ₹ 50,000. The cost inflation index in 2020-21 was 301. Compute his total income for the Assessment Year 2021-22.

Sol.

Computation of Total Income
(for the Assessment Year 2021-22)

	₹	₹
1. Professional Income :		
Legal fees	2,60,000	
Income from Special Commission	5,000	
Presents from Clients	600	
	2,65,600	
<i>Less : Office Expenses</i>	5,000	2,60,600
1/2 Share of profit in a firm		Exempt
2. Capital Gains (Long-term)	1,80,000	
Short-term Capital Loss	-1,300	
	1,78,700	
	Long term Capital Gains	1,78,700
3. Income from other Sources :		
Interest on advance	500	
Bank Interest on F.D.	2,500	
Director's fees	500	
Dividend from Co-op. Society	700	
Salary as M.P.	48,000	
Gains on Race Course	3000	55,200
	55,200	
	Gross Total Income	4,94,500
<i>Less : Deduction :</i>		
u/s 80G regarding donations of ₹ 1,500 to N.D.F. being 100% thereof		1,500
	Total Income	4,93,000

- Notes :**
1. Interest on 12-years National Savings Plan Certificates is exempt.
 2. Household expenses, Charity, Income tax, Gratuity to one of his disabled clerks (being in the nature of the personal gift and not on account of any contractual liability) are not allowable expenses.
 3. Presents from clients are taxable as professional income as it is a normal feature in the profession of 1 lawyer or a medical practitioner.
 4. Share of loss in a firm cannot be set-off against the other income of a partner. It will be carried forward by the firm itself to be set-off against its future income.
 5. Office expenses cannot be allowed as a deduction from salary as M.P.
 6. Daily Allowance of M.P. is not taxable.
 7. The house is burnt. It is not transferred. Hence, the loss cannot be deducted from capital gains.

Q.12. Explain the computation of tax for the Assessment year 2021-22.

Ans. Computation of Tax for the Assessment year 2021-22.

The computation of the assessment of an assessee is done in the following manner :

1. Compute the gross total income of the assessee.
2. Deduct therefrom the deductions admissible under sections 80C to 80U. The balance is called total income.
3. The total income is rounded off to the nearest multiple of ₹ 10.

4. Where the assessee is an individual or H.U.F. or a Body of Individuals or other Association of Persons whose total income exceeds exemption limit and the net agricultural income, if any, exceeds ₹ 5,000, the net agricultural income and total income are aggregated.
5. Calculate income tax on the aggregate other income at the specified rates and on short-term capital gains specified in section 111A and on long-term capital gains u/s 112, or u/s 112A, as if such aggregate income were the total income.
6. Calculate income tax on the net agricultural income as increased by exemption limit, as if such increased net agricultural income were the total income.
7. The amount of income tax determined under (6) above will be deducted from the amount of the income tax determined under (5) above.
8. The balance of amount of income tax left as per (7) above will be the income tax in respect of the total income.
9. Find out the average rate of income tax by dividing the income tax determined under (8) above by the total income.
10. Ascertain the amounts included in total income which are exempt from income tax at the average rate.
11. Calculate the amount of rebate to be granted on the exemptions at the average rate of income tax (share of a member from an Association of Persons or Body of Individuals and deduct it from income tax calculated under (8) above.
12. Add surcharge, if any, and health and education cess on the amount of income tax and surcharge.
13. Deduct the following from the amount of tax calculated under No. (12) above :
 - (i) Tax deducted and collected at the source.
 - (ii) Advance tax paid.
 - (iii) Double taxation relief.
 - (iv) Amount of tax paid under section 140A (Self-Assessment)
14. The balance of amount left after deduction of items given in No. (13) above, shall be the net tax payable by the assessee or if the aggregate of the amount to be deducted under them (13) above, exceeds the aggregate amount of tax determined in No. (12) above, the excess shall be the amount refundable to the assessee.
15. Along with the amount of net tax payable, the assessee shall have to pay penalties or fines, if any, imposed on him under the Income Tax Act.

Q.13. Anuradha Paudwal a musician and a playback singer, entrusts his accounts to you for the preparation of a return for the Assessment Year 2021-22.

From the analysis of the Bank Accounts, you notice the following :

	₹
(i) Concept receipts (local)	24,000
(ii) Receipts from film producers and companies	3,78,000
(iii) Royalty receipts from companies on records sold	10,000
(iv) Amount from Life Insurance Corporation on the maturity of a policy in the name of wife	26,000
(v) Interest on Savings Bank Account	1,000
(vi) Interest on Fixed Deposits with Banks	9,800

(vii) Life Insurance Premium paid on a policy taken in 2017 in wife's name (sum assured ₹ 2 Lakh)	25,000
(viii) Life Insurance premium paid on own life policy taken in 2016-17 (sum assured ₹ 1,00,000)	11,000
(ix) Deposited in Public provident fund account of self	50,000
(x) Cost of train and air tickets for a party taken by Anuradha on a concert tour of Kolkata, Shillong and Guwahati.	14,000
(xi) Payments to accompanying artists for the above	1,58,000
(xii) Concert receipts on the tour of Eastern Indian region	6,65,000
(xiii) Motor-car-expenses-car used to attend concerts, recording sessions, etc.	18,000
(xiv) Rent paid (half the premises used for professional purposes)	9,000

Anuradha also trains disciples in his spare time and in the relevant year he collected from such disciples ₹ 12,000 in cash which was utilised to meet the household expenses. Anuradha has some agricultural lands in his ancestral village and in the year he earned ₹ 14,000 on sale of paddy. His father had left for him some Government Securities, on which he collected interest of ₹ 1,200 in the year.

Compute Anuradha's total income and tax liability.

Sol.

Computation of Total Income
(for the Assessment Year 2021-22)

	₹	₹	₹
1. Profits and Gains from Profession			
(a) Concert receipts (Local)	24,000		
(b) Receipts from film producers and companies	3,78,000		
(c) Royalty from companies on records sold (This will be taxable under the head 'Profits and Gains from Business or Profession' and not under 'Income from Other Sources' since it has a direct nexus with the profession carried on by Anuradha)	10,000		
(d) Concert receipts- Eastern India Tour	6,65,000		
(e) Tuition fees	<u>12,000</u>	10,89,000	
Less : Expenses :			
(1) Travel expenses	14,000		
(2) Payment to artists	1,58,000		
(3) Rent for the portion used for profession	4,500		
(4) Motor-car expenses-to be fully deducted assuming that the vehicle was exclusively used for profession	<u>18,000</u>	1,94,500	8,94,500
2. Income from Other sources :			
Interest on Savings Account		1,000	
Interest on Fixed Deposits		9,800	
Interest on Govt. Securities		<u>1,200</u>	12,000
		Gross Total Income	<u>9,06,500</u>

Capital Gains

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Less : Deduction u/s 80C :	80,000	
LIP & RPF Deduction u/s 80 TTA	1,000	81,000
		<hr/>
Total Income		8,25,500

Agricultural income [exempt u/s 10(1) but includible] in the total income for the purpose of determining the tax on total income]

14,000

Amount entitled to deduction u/s 80C :

Life Insurance Premium on wife's policy

(Restricted to 10% of sum assured)

20,000

Life Insurance Premium on own life Policy (10% of sum assured)

10,000

Contribution to Public Provident Fund

50,000

80,000**Computation of Tax Liability***(for the Assessment Year 2021-22)*

	₹
Income Tax on Non-Agricultural Income + Agricultural Income of ₹ 8,39,500	80,400
Less : Income Tax on Agricultural Income of ₹ 14,000	700
	<hr/>
	79,700
Add : Surcharge	Nil
	<hr/>
	79,700
Add : Health and Education Cess @ 4%	3,188
Tax Liability	<hr/> <hr/> 82,888

Q.14. Compute total income and tax payable (for the Assessment Year 2021-22) by an employee of a private company in Mumbai who was provided accommodation in a flat at confessionals rate for ten months and in a hotel for two months.

	₹
1. Salary	5,00,000
2. Bonus	76,000
3. Free gas, electricity, water, etc. (Actual bills paid by company)	44,000
4. (a) Furnished flat provided to the employee for which actual rent paid by the company per annum	1,20,000
(b) Hotel rent paid by employer (for two months)	50,000
(c) Rent recovered from employee	10,000
(d) Cost of furniture	1,20,000
5. Subscription to infrastructure bonds	6,000
6. Life Insurance Premium	5,000
7. Subscription to NSC (VII) Issue	20,000
8. Contribution to recognised P.F.	36,000

Sol. Computation of Total Income and Tax Payable
(for the Assessment Year 2021-22)

	₹
1. Salary	5,00,000
2. Bonus	76,000
3. Free gas, electricity, water, etc.	44,000
4. Accommodation	95,040
	<u>7,15,040</u>
Less : Standard Deduction	50,000
	<u>6,65,040</u>
Income from Salaries being G.T.I.	6,65,040
Less : Deduction u/s 80C	67,000
	<u>5,98,040</u>
Total Income	5,98,040
	₹
Tax on ₹ 5,98,040	Nil
on ₹ 2,50,000	Nil
on ₹ 2,50,000 @ 5%	12,500
on ₹ 98,040 @ 20%	19,608
	<u>32,108</u>
Add : Surcharge	32,108
Add : Health and Education Cess @4%	Nil
	<u>32,108</u>
	<u>1,284</u>
Tax Payable	33,392
Rounded off ₹ 33,390	

Note : Value of accommodation has been computed as under :

(a) (i) Salary for ten months ₹ 4,80,000	₹
(ii) Rent paid for ten months ₹ 1,00,000	
Value 15% of ₹ 4,80,000 or ₹ 1,00,000 whichever is less	72,000
(b) (i) Salary for two months (Hotel) ₹ 96,000	
(ii) Hotel rent ₹ 50,000	
Value 24% of salary or actual hotel rent ₹ 50,000 whichever is less	23,040
(c) Furniture : 10% of ₹ 1,20,000 = ₹ 12,000	
For 10 months $12,000 \times (10 \div 12)$	<u>10,000</u>
	<u>1,05,040</u>
Less : Rent recovered	10,000
Value of Accommodation	<u>95,040</u>

Q.15. From the following information, compute the total income and net tax liability of Smt. Pushpa Gupta of 81 years for the Assessment Year 2021-22 :

	₹	₹
(1) Agricultural Income in India		5,00,000
(2) Rent received from house property		1,20,000
(3) Profit from an industrial undertaking before deducting the following :		6,00,000

(i) Depreciation as per Income Tax Act	20,000	
(ii) Business losses brought forward	50,000	
(4) Profit of another business of jewellery		4,70,000
(5) Capital gains :		
(i) Short-term u/s 111A	10,000	
(ii) Long-term	90,000	1,00,000
(6) Loss from speculation business		50,000
(7) Interest on Govt. Securities		30,000
(8) Interest from post office		25,000
(9) Winning from Horse race		50,000
(10) Payment towards pension fund of LIC		12,000
(11) Payment by cheque of mediclaim insurance premium on the health of her husband aged 85 years.		35,000
(12) Deposit in Public Provident Fund account of her husband		1,00,000

**Sol. Computation of Total Income and
Net Tax Liability of Smt. Pushpa Gupta
(For the Assessment Year 2021-22)**

Income from House Property	₹	₹
Rent (A.V.)	1,20,000	
Less : 30% of A.V.	36,000	84,000
Income from Business :		
(a) Industrial undertaking	6,00,000	
Less : Depreciation and b/f loss 20,000 + 50,000	70,000	
	5,30,000	
(b) Profit of Jewellery Business	4,70,000	10,00,000
(c) Speculative loss c/f	50,000	
Capital Gains :		
(a) Short-term u/s 111A	10,000	
(b) Long-term	90,000	1,00,000
Income from Other Sources :		
(a) Agricultural Income	Exempt	
(b) Interest on Govt. Securities	30,000	
(c) Interest from P.O.	25,000	
(d) Winning from Horse race	50,000	1,05,000
Gross Total Income		12,89,000

Less : Deductions :

(i) u/s 80 C PPF	1,00,000
(ii) u/s 80CCC Pension fund (Deductible up to ₹ 1,50,000)	12,000

(iii) u/s 80D Medical Insurance premium (Deductible up to ₹ 50,000)	35,000	
(iv) u/s 80TTB Int. up to ₹ 50,000	25,000	1,72,000
	<u>Total Income</u>	<u>11,17,000</u>
		5,00,000
	<u>Aggregate Income</u>	<u>16,17,000</u>
		₹
Tax on STCG sec. 111A ₹ 10,000 @ 15%		1,500
Tax on LTCG sec. 112 ₹ 90,000 @ 20%		18,000
Tax on winning from Horse race ₹ 50,000 @ 30%		15,000
Tax on other income ₹ 14,67,000 :		
On ₹ 5,00,000 @20%	Nil	
On next ₹ 5,00,000 @ 20%	1,00,000	
On Balance ₹ 4,67,000 @ 30%	1,40,100	
	<u>2,40,100</u>	
<i>Less : Tax on ₹ 5,00,000 + Ag. Income 5,00,000 = ₹ 10,00,000</i>	1,00,000	1,40,100
		<u>1,74,600</u>
<i>Add : Health and Education Cess @ 4%</i>		6,984
	<u>Tax Liability</u>	<u>1,81,584</u>
<i>Less : TDS on Govt. Securities</i>	Nil	
<i>TDS on winning from Horse race ₹ 50,000 @ 30%</i>	15,000	15,000
	<u>Net Tax Liability</u>	<u>1,66,584</u>
	Rounded off	1,66,580

Q.16. The following are incomes from various sources of Mr. Ravindra Jadija for the Assessment Year 2021-22 :

	₹
(i) Rent received from house property let out to bank	1,42,000
(ii) Profit from cloth business	20,000
(iii) Loss from cotton business	30,000
(iv) Profit from silver Speculation business	20,000
(v) Loss from silver speculation business of gold	30,000
(vi) Interest on bank deposit (Gross)	47,000
(vii) Lottery Prize received (Net)	4,20,000
(viii) Dividend received on shares of a Domestic Co.	8,000
(ix) Amount received on maturity of life policy	50,000
(x) Royalty from books (conditions fulfilled u/s 80QQB)	1,55,000

Compute the total income and net tax liability of Mr. Ravindra Jadeja keeping the following points in mind.

- (a) He spent ₹ 13,500 on the treatment of handicapped dependent.
 (b) Donation to P.M. National Defence Fund ₹ 22,000 by cheque.

Sol. Computation of Total Income and Net Tax Liability
(for the Assessment Year 2021-22)

	₹	₹
Income from House Property :		
Rent (A.V.)	1,42,000	
Less : 30% of A.V.	<u>42,600</u>	99,400
Income from Business :		
Profit from Cloth business	20,000	
Less : Loss from cotton business	<u>30,000</u>	-10,000
Profit from silver speculation	20,000	
Less : Loss form gold speculation	<u>30,000</u>	—
Loss carried forward	<u>-10,000</u>	
Income from Other Sources :		
Interest from bank	47,000	
Lottery-Gross (4,20,000 × 100 ÷ 70)	6,00,000	
Dividend	8,000	
Amount received on maturity of life policy-Exempt	—	
Royalty on books	<u>1,55,000</u>	8,10,000
	Gross Total Income	8,99,400
Less : u/s 80DD -On treatment	75,000	
u/s 80G- Donation	22,000	
u/s 80QQB-Royalty	<u>1,55,000</u>	2,52,000
	Total Income	6,47,400
		₹
Tax on lottery income ₹ 6,00,000 @ 30%, u/s 115BB		1,80,000
Tax on other income ₹ 47,400		Nil
		1,80,000
Add : Health and Education Cess @ 4%		<u>7,200</u>
	Tax Liability	1,87,200
Less : Tax Education at source on lottery winning @ 30%		<u>1,80,000</u>
	Net Tax Liability	7,200

Q.17. From the following information compute tax liability of Mansi (keeping in view the provisions of Alternate Minimum Tax) for the Assessment Year 2021-22.

	₹
1. House rent receive.d (gross)	6,00,000
2. Municipal tax paid	1,00,000
3. Income from business	31,00,000
4. Donation to Swachh Bharat Kosh set up by the Central Government by Cheque	1,00,000
5. Eligible for deduction u/s 80IB	8,00,000

Sol.

Computation of Total Income
(for the Assessment Year 2021-22)

Income from House Property		₹	₹
Rent		6,00,000	
Less : Municipal tax paid		<u>1,00,000</u>	
Annual value		5,00,000	
Less : 30% of A.V.		1,50,000	3,50,000
Income from Business			31,00,000
	Gross Total Income		34,50,000
Less : Donation u/s 80G		1,00,000	
Deduction u/s 80IB		<u>8,00,000</u>	<u>9,00,000</u>
	Total Income		<u><u>25,50,000</u></u>

Computation of Tax Liability
(for the Assessment Year 2021-22)

		₹	
Tax on ₹ 2,50,000			Nil
Tax on next ₹ 2,50,000 @ 5%			12,500
Tax on next ₹ 5,00,000 @ 20%			1,00,000
Tax on balance ₹ 15,50,000 @ 30%			<u>4,65,000</u>
			5,77,500
Add : Health and Education Cess @ 4%			<u>23,100</u>
	Tax Liability (A)		<u><u>6,00,600</u></u>

Computation of Adjusted Total Income and Tax u/s 115JC
(for the Assessment Year 2021-22)

		₹	
Total Income			₹
Add : Deduction u/s 80IB		25,50,000	
		<u>8,00,000</u>	
	Adjusted Total Income		<u><u>33,50,00</u></u>
Tax on ₹ 33,50,000 @ 18.5%			6,19,750
Add : Health and Education Cess @ 4%			<u>24,790</u>
			(B) <u><u>6,44,540</u></u>

Tax Liability (A) or (B), whichever is greater ₹ 6,44,540

Q.18. From the following information compute tax liability of Mansi (keeping in view the provisions of Alternate Minimum Tax) for the Assessment Year 2021-22.

		₹	
1. House rent received (gross)		6,00,000	
2. Municipal tax paid		1,00,000	
3. Income from business		31,00,000	

4. Donation to Swachh Bharat Kosh set up by the Central Government by Cheque	1,00,000
5. Eligible for deduction u/s 81IB	8,00,000

Sol.

Computation of Total Income (for the Assessment Year 2021-22)

Income from House Property	₹	₹
Rent	6,00,000	
Less : Municipal tax paid	1,00,000	
Annual value	5,00,000	
Less : 30% of A.V.	1,50,000	3,50,000
Income from Business		31,00,000
	Gross Total Income	34,50,000
Less : Donation u/s 80G	1,00,000	
Deduction u/s 80IB	8,00,000	9,00,000
	Total Income	25,50,000

Computation of Tax Liability (for the Assessment Year 2021-22)

Tax on ₹ 2,50,000	₹
	Nil
Tax on next ₹ 2,50,000 @ 5%	12,500
Tax on next ₹ 5,00,000 @ 20%	1,00,000
Tax on balance ₹ 15,50,000 @ 30%	4,65,000
	5,77,500
Add : Health and Education Cess @ 4%	23,100
	Tax Liability (A)
	6,00,600

Computation of Adjusted Total Income and Tax u/s 115JC (for the Assessment Year 2021-22)

Total Income	₹
	25,50,000
Add : Deduction u/s 80IB	8,00,000
	Adjusted Total Income
	33,50,00
Tax on ₹ 33,50,000 @ 18.5%	6,19,750
Add : Health and Education Cess @ 4%	24,790
	(B)
	6,44,540

Tax Liability (A) or (B), whichever is greater ₹ 6,44,540

Q.19. You are required to compute the net tax liability or tax refundable, if any, from the following particulars of income of an assessee for the Assessment Year 2021-22 :

	₹
1. Salary	6,00,000
2. D.A.	1,00,000
3. Received Rent of Property	31,00,000
4. Interest paid on loan taken for repair of property	1,00,000
5. Interest received on time deposit with PNB (1.5.2020)	8,00,000
6. He contributed to Recognized Provident Fund @ 10% of his salary and paid ₹10,000 as premium on his life insurance policy.	
7. He paid medical insurance premium for self by cheque	₹ 20,000

Sol. Computation of Total Income and Net Tax Liability
(for the Assessment Year 2021-22)

Income from Salaries	₹	₹
Salary	6,00,000	
D.A.	1,22,000	
	Gross Salary	7,22,000
Less : Standard Deduction	50,000	6,72,000
Income from House Property :		
Rent being Annual value	₹ 80,000	
Less : 30% of A.V.	24,000	
Less : Interest on loan for repair	30,000	54,000
Interest $54,00 \times 100 \div 90$		60,000
	Gross Total Income	7,58,000
Less : Deduction in respect of savings u/s 80C	70,000	
Deduction in respect of medical Insurance premium u/s 80D	20,000	90,000
	Total Income	6,68,000
Qualifying Amount for deduction u/s 80C :		
Contribution to R.P.F.		60,000
Add : L.I.P.		10,000
		70,000
Income-tax on 6,68,000		
On ₹ 2,50,000	Nil	
On ₹ 2,50,000 @ 5%	12,500	
On ₹ 1,68,000 @ 20%	33,600	46,100
Add : Surcharge		Nil
Add : Health and Education Cess @ 4%		46,100
		1,844
	Tax Liability	47,944
Less : Deduction of tax at source on		
(i) Interest ₹ 60,000 @ 10%	6,000	
(ii) Salaries	30,056	30,056
	Net Tax Liability	11,888

Rounded off 11,890.

Notes : Tax on salaries has been computed as under :

	₹
Net Salary (₹ 6,72,000 – 70,000 – 20,000)	5,82,000
Tax on ₹ 2,50,000	Nil
Tax on ₹ 2,50,000 @ 5%	12,500
Tax on ₹ 82,000 @ 20%	16,400
	28,900
Add : Surcharge	Nil
	28,900
Add : Health and Education Cess @ 40%	1,156
	30,056

2. Health and Education Cess is not deductible at source on income tax except tax deduction at source on salaries.

Q.20. From the following particulars Mrs. Pooja, Calculate her total income and net tax payable by him for the Assessment Year 2021-22 :

	₹
1. Rent from let out property (Subject to TDS @ 10%)	3,00,000
2. Long-term capital gains (Computed)	2,00,000
3. Profit from own business	8,00,000
4. Income from lottery (Gross)	80,000
5. Net agricultural income	40,000
6. Payment of interest on loan taken for higher education	30,000

Sol. Computation of Total Income and Net Tax Payable
(for the Assessment Year 2021-22)

Income from House Property :	₹	₹
Rent (A.V.)	3,00,000	
Less : 30% of A.V.	90,000	2,10,000
Profit from Business		8,00,000
Capital Gains : Long-term		2,00,000
Income from Other Sources :		
Lottery		80,000
	Gross Total Income	12,90,000
Less : Deduction u/s 80E (Interest)		30,000
	Total Income	12,60,000

Add : Agricultural Income

	40,000
	Aggregate Income
	13,00,000
Tax on LTCG ₹ 2,00,000 @ 20%	40,000
Tax on Lottery Income ₹ 80,000 @ 30%	24,000
Tax on other income ₹ 10,20,000	

on ₹ 2,50,000	Nil	
on ₹ 2,50,000 @ 5%	12,500	
on ₹ 5,00,000 @ 20%	1,00,000	
on ₹ 20,000 @ 30%	6,000	
	<u>1,18,500</u>	
Less : Tax on agricultural income (₹ 2,50,000 + 40,000 = ₹ 2,90,000)	2,000	<u>1,16,500</u>
		1,80,500
Add : Surcharge		Nil
		<u>1,80,500</u>
Add : Health and Education Cess @ 4%		7,220
	Tax Payable	<u>1,87,720</u>
Less : TDS on ₹ 3,00,000 (Rent) @ 10%	30,000	
TDS on ₹ 80,000 (Lottery) @ 10 %	24,000	<u>54,000</u>
	Net Tax Payable	<u>1,33,720</u>

Notes : (1) Tenant is responsible to deduct tax at source on rent, as the amount exceeds ₹ 2,40,000.

(2) Health and Education Cess are not deductible at source on income-tax except tax deductible at source on salaries.

Multiple Choice Questions

Q.1. Capital asset may be :

- (a) movable or immovable (b) tangible or intangible
(c) fixed or floating (d) All of these

Ans. (d) All of these

Q.2. Short-term capital asset means a capital asset held by an assessee for not more than.....months immediately preceding the date of its transfer.

- (a) 26 (b) 36
(c) 46 (d) 48

Ans. (b) 36

Q.3. Capital asset exclude all assets except :

- (a) Stock in trade
(b) Personal effect
(c) Jewellery
(d) Rural agricultural land

Ans. (c) Jewellery

Q.4. Cost of acquisition in case of bonus shares allotted before 1/4/2001 will be :

- (a) Face value on the date of allotment
(b) Nil
(c) Market value as on 1/4/2001
(d) Current market value

Ans. (c) Market value as on 1/4/2001

Q.5. Where the total income of an assessee includes income by way of long term capital gains arising from transfer of listed securities (other than listed equity shares) applicable income tax rate on such income is

- (a) 20% of LTCG calculated after doing indexation
- (b) 10% of LTCG calculated without doing indexation.
- (c) Higher of (a) or (b)
- (d) Lower of (a) or (b)

Ans. (c) Higher of (a) or (b)

Q.6. In term of section 2(42A), listed securities are treated as long-term capital asset, if they are held for a period of more than :

- (a) 12 months
- (b) 6 months
- (c) 24 months
- (d) 48 months

Ans. (d) 48 months

Q.7. Long term capital gains on zero coupon bonds are chargeable to tax.

- (a) @20% computed after indexation of such bonds
- (b) @10% computed without indexation of such bonds.
- (c) Higher of (a) or (b)
- (d) Lower of (a) or (b)

Ans. (a) @20% computed after indexation of such bonds

Q.8. Which of the following is not a requirement for charging income tax on capital gains?

- (a) The transfer must have been effected in the relevant assessment year
- (b) There must be a gain arising on transfer of capital asset
- (c) Capital gains should not be exempt under section 54
- (d) Capital gains should not be exempt under section 54EC.

Ans. (d) Capital gains should not be exempt under section 54EC.

Q.9. In order to enjoy exemption under section 54EC, the resultant long term capital gains should be invested in specified bonds within a period from the date of transfer.

- (a) 36 months
- (b) 4 months
- (c) 6 months
- (d) 12 months

Ans. (d) 12 months

Q.10. GGC Pvt. Ltd. issued 10,000 equity shares to Mr. V at Rs. 18 per share when the fair market value of each share was determined at Rs. 11 per share. Following statements are given in this regard:

- (1) Rs. 70,000 taxable as income for GGC Pvt. Ltd.
- (2) Rs. 70,000 taxable as income for Mr. V
- (a) (1) is correct and (2) is also correct
- (b) (1) is correct and (2) is incorrect
- (c) (1) is incorrect and (2) is correct
- (d) (1) is incorrect and (2) is also incorrect

Ans. (c) (1) is incorrect and (2) is correct

Q.11. Mr. v acquired 1,000 equity shares of XI0 each in a listed company for Rs. 35,000 on 1st July, 2012. The company issued 1,000 rights shares in April, 2014 at Rs. 15 per share. The company issued 2,000 bonus shares in June, 2020. The market price was Rs. 50 per share before bonus issue. The cost of acquisition of bonus shares would be :

- (a) Nil (b) Rs. 20,000 (c) Rs. 50,000 (d) Rs. 1,00,000

Ans. (b) Rs. 20,000

Q.12. Ms. Smita inherited a vacant site land consequent to the demise of her father on 10th June, 2000. The land was acquired by her father on 10th April, 1970 for Rs. 40,000. The fair market value of the land on 1st April, 2001 was Rs. 60,000 and on the date of inheritance i.e., 10th June, 2000 was Rs. 2,00,000. The cost of acquisition for Ms. Smita is :

- (a) Nil (b) Rs. 40,000 (c) Rs. 60,000 (d) Rs. 2,00,000

Ans. (d) Rs. 2,00,000

Q.13. Under which section the assessee has to reinvest the entire amount of net consideration to claim full exemption for the long term capital gains earned during a previous year.

- (a) Section 54EC (b) Section 54F
(c) Section 54B (d) Section 54 C

Ans. (b) Section 54F

Q.14. If goodwill of a profession which is self-generated is transferred there will

- (a) liable to capital gain (b) not be liable any capital gain
(c) be a short-term capital gain (d) be a long term capital gain

Ans. (b) not be liable any capital gain

Q.15. For claiming exemption under section 54, the assessee should transfer:

- (a) A self occupied residential house property
(b) A let out residential house property
(c) A vacant house property
(d) Any of the above three

Ans. (d) Any of the above three

Q.16. Exemption under section 54 is available to:

- (a) all assessee (b) individuals only
(c) individual as well as HUF (d) HUF only

Ans. (c) individual as well as HUF

Q.17. For claiming exemption under section 54, the assessee should purchase residential property :

- (a) 2 years after the date of transfer
(b) 3 years after the date of transfer
(c) within one year before or two years after the date of transfer
(d) One year before and 3 years after the date of transfer.

Ans. (b) 3 years after the date of transfer

Q.18. For claiming exemption under section 54, the assessee should complete the construction of the residential property.

- (a) within one year before or two years after the date of transfer
- (b) within one year before or three years after the date of transfer
- (c) within three years after the date of transfer
- (d) within three years after the date of transfer

Ans. (a) within one year before or two years after the date of transfer

Q.19 Short term capital gains arising from the transfer of listed equity shares in a company charged with security transaction tax are subject to income tax at the rate of

- (a) 10%
- (b) 15%
- (c) 20%
- (d) Normal rate

Ans. (a) 10%

Q.20. Long term capital gains on sale of a long term capital asset on 15th October, 2020 is Rs. 105 lakh. The assessee invested Rs. 50 lakh in RECI bonds on 31st March, 2020 and Rs. 55 lakh in NHAI bonds on 18th May, 2020. The amount of exemption eligible under section 54EC is:

- (a) Nil
- (b) Rs. 50 lakh
- (c) Rs. 55 lakh
- (d) Rs. 105 lakh

Ans. (c) Rs. 55 lakh

Q.21. Mr. V purchased a car for his personal use for Rs. 5,00,000 in April, 2020 and sold the same for Rs. 5,50,000 in July, 2020. The taxable capital gains would be :

- (a) Nil
- (b) Rs. 5,50,000
- (c) Rs. 50,000
- (d) Rs. 4,00,000

Ans. (b) Rs. 5,50,000

Q.22. Mr. V purchased shares of GCC Pvt for Rs. 5 lakhs on 3rd April, 2020. The shares were sold on 5th June, 2020 for Rs. 7 lakhs. She paid STT of Rs. 700 and brokerage of Rs. 500. The amount chargeable to tax is:

- (a) Rs. 2,00,000
- (b) Nil
- (c) Rs. 1,99,500
- (d) Rs. 1,98,700

Ans. (b) Nil

Q.23. Which of the following is not a capital asset for Mr. V who is employed in a public sector bank ?

- (a) Urban land
- (b) Agricultural land within 2 kms local limits of municipality
- (c) Gold Jewellery
- (d) Car

Ans. (d) Car

Q.24. On 1/6/2020 Mr. v transferred his vacant land to Mr. D for Rs. 12 lakhs. The land was acquired on 1/9/2017 for Rs. 3 lakhs. If indexation is applied, the indexed cost of acquisition would be Rs. 3.30 lakhs. The taxable capital gain would be :

- (a) Long term capital gain Rs. 8.70 lakh
- (b) Short term capital gain Rs. 9 lakhs
- (c) Long term capital gain Rs. 9 lakhs
- (d) Short term capital gain Rs. 8.70 lakhs

Ans. (b) Short term capital gain Rs. 9 lakhs

Q.25. Mr. v sold a vacant land to Mr. D for Rs. 36 lakhs. For stamp duty purpose, the value of land was Rs. 41 lakhs. The indexed cost of acquisition of land was computed at Rs. 20 lakhs. The taxable long term capital gain would be :

- (a) Rs. 21 lakhs
- (b) Rs. 16 lakhs
- (c) Rs. 5 lakhs
- (d) Rs. 20 lakhs

Ans. (a) Rs. 21 lakhs

Q.26. Capital gain arises on :

- (a) All type of asset
- (b) All types of capital asset
- (c) Land, Building and Shares only
- (d) All of the above.

Ans. (c) Land, Building and Shares only

Q.27. Capital gains is calculated when

- (a) Any asset is transferred
- (b) Any capital asset is transferred
- (c) any asset is transferred or not transferred
- (d) any capital is transferred or not transferred

Ans. (b) Any capital asset is transferred

Q.28. Short-term capital gain is gain arising from the transfer of a land and building which is held by the assessee for not more than?

- (a) 36 months from the date of its acquisition
- (b) 12 months from the date of its acquisition
- (c) 24 months from the date of its acquisition
- (d) 48 months from the date of its acquisition

Ans. (c) 24 months from the date of its acquisition

□

UNIT-IV

Set-off and Carry Forward of Losses

SECTION-A (VERY SHORT ANSWER TYPE) QUESTIONS

Q.1. State the incomes which are aggregated to find out the total income of an assessee.

Ans. To find out the total income of an assessee the following incomes are aggregated :

- (i) Incomes of the assessee (already discussed).
- (ii) Income of other persons includible in the income of the assessee. This is known as the clubbing of incomes.
- (iii) Deemed incomes.
- (iv) Share of a member in the Association of Persons or Body of Individuals.
- (v) Income from the firm.

Q.2. What do you mean by clubbing of incomes?

Ans. There is a growing tendency on the part of the tax-payers either not to disclose certain assets or investments in the records maintained by them or to disclose it at a figure lower than its cost. Further, they dispose off their property or income in such a way that tax liability may be avoided or reduced. An assessee, therefore, attempts to shift his income to others so that he may keep his tax liability to the minimum. For this purpose, he arranges to shift an income legally, which in fact belongs to him, to some other person. To counteract such practices, special provisions relating to clubbing of incomes have been made in sections 60 to 65. As per these sections, the income of other persons shall be included in the assessee's total income. Such inclusion of income of other person in the income of the assessee is called 'Clubbing of Income'.

Q.3. Who is liable to pay tax on the following incomes :

- (a) Mr. Ravi transferred a property worth ₹ 2 lakh to his son's wife on 10th June, 2011. The income accrued to her from the property is ₹ 20,000 during the previous year 2020-21.
- (b) Mr. Ravi, a member of the Hindu Undivided Family, transferred his personal property worth ₹ 1,00,000 to the H.U.F. on 10th July, 2017, without consideration. The income accrued to the family from the property ₹ 20,000 during the previous year 2020-21

Ans. (a) Mr. Ravi transferred the property to his son's wife after 31.5.1973 without adequate consideration. Hence, the income from such property (₹ 20,000) is liable to be taxed in the hands of Mr. Ravi and not in the hands of son's wife.

- (b) Mr. Ravi transferred the individual property without consideration to the H.U.F. after 31.12.1969, hence the whole income (₹ 20,000) from such property is liable to be taxed in his hands and not in the hands of the H.U.F.

Q.4. The total income of an individual for the Assessment Year 2021-22 has been determined by the assessing officer at ₹ 3,50,000. Later, it is found that he has not considered the following while determining the income :

	₹
(i) Depreciation for the current year	12,000
(ii) Unabsorbed depreciation carried forward	15,000
(iii) Unabsorbed business losses carried forward from the Assessment Year 2019-20	3,000

Sol. Computation of Gross Total Income
(for the Assessment Year 2021-22)

	₹
Total Income assumed as Business Income only	3,50,000
Less : Current year's Depreciation	12,000
	3,38,000
Less : B/fd unabsorbed business loss	3,000
	3,35,000
Less : Unabsorbed Depreciation	15,000
	3,20,000
Gross Total Income	<u>3,20,000</u>

Q.5. Discuss the advantages of e-filing of return.

Ans. Following are the major advantages of e-filing of return :

- (i) Convenient and secure online transaction.
- (ii) Available anytime, anywhere.
- (iii) Higher data accuracy.
- (iv) Faster processing of returns and quicker refunds.
- (v) E-filing of return is paperless. It saves trees and environment.

Note : On-line filling of return of income, digital signature and digital verification code, will be taught in the practical class.

Q.6. Discuss the e-filing of income tax returns.

Ans. According to Section 139(1) of the Income Tax Act, 1961 of India, individuals whose total income during the previous year is more than the maximum amount not chargeable to tax, should file their Income Tax Returns (ITR). When such individuals file their income tax returns online, the process is known as e-filing. As taxpayer, assessee can seek professional help or file returns by simply registering on the income tax department website or other relevant websites.

Q.7. From the following information compute the interest payable by an individual u/s 234A :

the Assessment Year	2021-22
Date of filing the return	20.1.2022
Return due on	31.7.2021
Tax deducted at source	₹ 5,000
Tax paid in advance	₹ 15,000
Tax paid on self-assessment at the time of filing the return	₹ 2,000
Tax payable on the basis of assessed income	₹ 25,180

Sol.

Tax payable	₹	25,180
Less : Tax paid in advance	15,000	
Tax deducted at source	5,000	20,000
	Tax Due	<u>5,180</u>

Rounded off ₹ 5,100.

Interest @ 1% per month or part of a month on ₹ 5,100 shall be charged for the delay in filing the return.

Delay in filing the return—5 months 20 days but rounded off to 6 months.

Hence, interest payable

$$\frac{5,100 \times 1 \times 6}{100} = ₹ 306$$

Note : Amount paid on self-assessment shall not be deducted for the computation of interest u/s 234A.

Q.8. Discuss the meaning of tax deduction at source.

Ans. The tax deduction at source means that the person responsible for making payment of certain incomes to the income earners deduct income tax at the prescribed rates on such incomes before payment is made to them. The amount so deducted at source shall be deposited by the deductor in the Government Treasury within the prescribed time limit. The tax so deducted is called deduction of tax at source.

Q.9. Ascertain the amount of tax deducted at source from the following incomes/receipts during the financial year 2021-22 :

- (i) Lottery winnings of ₹ 1,00,000 (gross) payable to Mr. Arnav, resident in India.
- (ii) Winnings from horse-race ₹ 50,000 payable to Mr. Dev, non-resident in India.
- (iii) Interest on Securities (listed) payable to Mr. Aarav, a resident in India, ₹ 20,000.
- (iv) Dividend payable by a domestic company to Abhi, a resident in India ₹ 40,000.
- (v) Interest on unlisted debentures of Dev Ltd. payable to Kuldeep, a resident in India, ₹ 10,000.

Sol. Computation of the Amount of Tax Deducted at Source
(for the Assessment Year 2022-23)

	₹
(i) Lottery winnings (Resident) : TDS on ₹ 1,00,000 @ 30%	30,000
(ii) Winnings from horse-race (Non-resident) : TDS on ₹ 50,000 @ 30% + Health and Education Cess @ 4% on income tax	15,600
(iii) Interest on Securities (listed) : TDS on ₹ 20,000 @ 10%	2,000
(iv) Dividend by a domestic company : TDS on ₹ 40,000 @ 10%	4,000
(v) Interest on unlisted debentures (Resident) TDS on ₹ 10,000 @ 10%	1,000

Q.10. Mahadev Ltd. (domestic company) has taken a building on lease. It has sub-leased the building along with furniture to Krishna Ltd. (domestic company) and will receive the following amounts as consideration for the sub-lease during the financial year 2021-22 :

Rent	4,80,000
Furniture hire charges	40,000

Compute deduction of tax at source under section 194-I.

Sol. 'Rent' means any payment under lease, sub-lease, tenancy or other agreement for the use of any building together with furniture, fittings and land appurtenant thereto.

Keeping in view the above, the T.D.S. will be as under :

	₹
Rent	4,80,000
Furniture—hire charges	40,000
	5,20,000
Tax on ₹ 5,20,000 @ 10%	52,000
Tax to be Deducted at Source	52,000

Q.11. From the following information determine the amount of tax to be deducted at source, if the payee fails to furnish his PAN to the payer :

1. Let out his building to a company in respect to which rent is payable ₹ 3,00,000 during the financial year.
2. He won ₹ 1,00,000 in a lottery.

Sol. When payee fails to furnish his PAN to the payer, the tax shall be deducted at the prescribed rate in the Act/Finance Act of the relevant year or @ 20%, whichever is higher.

Accordingly tax shall be deducted at source as under :

1. On rent ₹ 3,00,000 @ 20% instead of @ 10% = ₹ 60,000
2. On Lottery winning ₹ 1,00,000 @ 30% = ₹ 30,000

Q.12. What are the objectives of faceless appeal scheme?

Ans. Following are the main objectives of faceless appeal scheme :

- (i) To impart greater efficiency, transparency and accountability.
- (ii) Eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible.

- (iii) Optimizing utilization of the resources through economies of scale and functional specialisation.
- (iv) Introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more Commissioner (Appeals).

Q.13. Sahil resident of India of the age of 65 years, has not furnished his return of income for the Assessment Year 2021-22. The total income assessed by A.O. u/s 143(3) ₹ 10 lakh.

Compute the penalty leviable u/s 270A.

Sol. Computation of Penalty Leviable u/s 270A
(for the Assessment Year 2021-22)

	₹
Total Income assessed u/s 143(3)	10 lakh
Less : Basic exemption limit	3 lakh
	Under Reported Income
	7 lakh
Tax payable on ₹ 7 lakh + Basic exemption limit ₹ 3 lakhs = ₹ 10 lakh	1,10,000
Add : Health & Education Cess @ 4%	4,400
Tax on under-reported income/Tax payable	1,14,400
Penalty Leviable @ 50% of Tax Payable	57,200

Q.14. What do you mean by tax evasion?

Ans. When a person reduces his total income by making false claims or by withholding the information regarding his real income, so that his tax liability is reduced, is known as tax evasion. Tax evasion is not-only illegal but it is also immoral, anti-social and anti-national practice. Therefore, under the direct tax laws provisions have been made for the imposition of heavy penalty and the institution of prosecution proceedings against tax evaders.

Q.15. Discuss the term tax avoidance.

Ans. Tax avoidance is an art of dodging tax without actually breaking the law. It is a method of reducing tax incidence by availing of certain loopholes in the law. The Royal Commission on Taxation for Canada has explained the concept of 'avoidance of tax' as under :

The expression 'Tax Avoidance' will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provision or lack of provision in the law. It excludes fraud, concealment or other illegal measures.

In other words, 'tax avoidance' is a device which technically satisfies the requirement of the law but in fact, it is not in accordance with the legislative intent.

Q.16. What do you mean by term tax planning?

Ans. Tax planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions of an Act, full advantages is taken of all exemptions, deductions, rebates and reliefs permitted under the Act, so that the burden of the taxation on an assessee, as far as possible, is the least.

Q.17. Differentiate between tax planning and tax avoidance.

Ans. Following are the major differences between tax planning and tax avoidance :

1. In tax planning, the letter and the spirit of the law are followed while in tax avoidance the tax is reduced by taking advantage of the loopholes of the law.
2. Tax planning is permanent while tax avoidance is temporary. However, no penalty can be imposed either in case of tax planning or in case of tax avoidance.

Q.18. Differentiate between tax avoidance and tax evasion.

Ans. Following points highlight the difference between tax avoidance and tax evasion :

- (i) Tax avoidance is legal but tax evasion is illegal.
- (ii) In case of tax avoidance, the objects and spirit of the law are not followed while in the case of tax evasion the provisions of the law are flouted.
- (iii) In the case of tax avoidance, no penalty can be imposed while in case of tax evasion the person is liable to penalty and prosecution.
- (iv) In the case of tax avoidance, black money is not generated, hence, it is not very harmful to society. In case of tax evasion, black money is generated which is mostly used for unproductive purposes.

Q.19. What are the advantages of tax planning?

Ans. Following are the main advantages of tax planning :

- (i) **For Tax-payer :** By tax planning, the tax-payer reduces his tax liability. For this purpose, he avails the benefit of deductions, reliefs and rebates permissible in the Act. He invests his savings in such schemes from where he gets the maximum tax advantage.
- (ii) **For the Country :** It means the Government. The Government starts development schemes for the progress of the nation. The capital for the schemes is arranged by encouraging people to save and invest. This reduces the pressure on government revenue.
- (iii) **For Society :** By tax planning, the society is also benefitted in many ways. The amount saved is invested in the industry. New industrial units provide an opportunity for employment. This increases demand of goods and services resulting in the better standard of living.

Q.20. Differentiate between tax planning and tax management.

Ans. Following points highlight difference between tax planning and tax management :

- (i) Tax planning is a wider-term. It includes tax management. Tax management is the first step towards tax planning.
- (ii) The primary aim of tax planning is minimising the incidence of tax, whereas the main aim of tax management is compliance with legal formalities.
- (iii) Tax planning is not essential for every assessee, while tax management is essential for every person, otherwise he may be liable for penal interest, penalty and prosecution. For example, a person may not be reducing his tax liability by claiming and exemption, deduction, reliefs, etc. in computing his total income but if he is liable to pay advance tax or responsible for deduction of tax at source, etc. he has to comply with all legal formalities.

SECTION-B (SHORT ANSWER TYPE) QUESTIONS

Q.1. Mr. Chaudhary is a trader. Particulars of his income and those of the members of his family are given below. These incomes relate to the previous year ended 31st March, 2021 :

(i)	Income from the business—Mr. Chaudhary's	4,90,000
(ii)	Salary (computed) from an education institution of Mrs. Chaudhary	3,50,000
(iii)	Interest on amount deposited in a company derived by Master Deep Chaudhary (minor son). These deposits were made in the name of Deep Chaudhary by his father's father about 6 years ago	12,000
(iv)	Receipts from sale of paintings and drawings made by Dipali Chaudhary (minor daughter of Mr. and Mrs. Chaudhary and a noted child artist)	60,000
(v)	Income by way of lottery earnings by Master Dipindar Chaudhary (minor son of Mr. Chaudhary)	6,000

Discuss whether the above will form part of the assessable income of any individual and also compute the assessable income of Mr. Chaudhary.

- Sol.**
- Mr. Chaudhary's income is assessable in his hands.
 - Mrs. Chaudhary's income ₹3,50,000 is assessable in her hands. The clubbing provisions do not apply to salary income until and unless it is received from a firm in which the other spouse has a substantial interest.
 - The income (₹60,000) of a minor daughter from paintings is assessable in her hands. The clubbing provisions do not apply to minor child's income which is earned by her from manual work or activity involving the application of her specialised knowledge and experience.
 - The income of minor sons Deep Chaudhary and Dipindar Chaudhary will be clubbed with the income of parent whose total income is greater. In the given case the total income of Mr. Chaudhary (₹4,90,000) is greater than the total income of Mrs. Chaudhary (₹3,50,000).

Hence, the income of minor children will be included in the income of Mr. Chaudhary [Sec. 64(1A)].

Now Mr. Chaudhary's total income will be computed as under :

Income of Mr. Chaudhary		4,90,000
<i>Add</i> : Income of Minor son :	₹	
Deep Chaudhary		12,000
<i>Less</i> : Exempt u/s 10(32) :		
Equal to the income or ₹1,500, whichever is less	1,500	10,500
Dipindar Chaudhary		6,000
<i>Less</i> : Exempt u/s 10(32) :		
Equal to the income or ₹1,500, whichever is less	1,500	4,500
		5,05,000

Q.2. Income of Mr. Devansh and Mrs. Devansh for the previous year 2020-21 as follows :

	Mr. Devansh ₹	Mrs. Devansh ₹
Salary from Dabur Ltd.	2,25,000	Nil
Short-term capital gain	90,000	Nil
Income from other sources :		
Bank interest	12,000	6,250
Interest on Govt. securities	3,600	2,750

Mr. Devansh having no qualifications or experience is employed in Dabur Ltd. Mrs. Devansh holds 22% of Equity capital in Dabur Ltd. from September 12, 2020. Find out the gross total income of Mr. Devansh and Mrs. Devansh.

Sol. Computation of Gross Total Income of Mr. Devansh and Mrs. Devansh
(for the Assessment Year 2021-22)

	₹	Mr. Devansh ₹	Mrs. Devansh ₹
Salary	2,25,000	—	2,25,000
Less : Standard deduction	50,000	—	1,75,000
Short-term capital gain		90,000	—
Bank interest		12,000	6,250
Int. on Govt. Securities		<u>3,600</u>	<u>2,750</u>
Gross Total Income		<u>1,05,600</u>	<u>1,84,000</u>

Note : Mrs. Devansh has a substantial interest in the company and Mr. Devansh does not have qualifications or experience, hence, salary of Mr. Devansh is includible in the income of Mrs. Devansh.

Q.3. From the particulars given below compute the total income of Mr. Ritesh for the Assessment Year 2021-22.

- (i) Income from profession ₹ 86,500.
- (ii) Income of Minor son (singing is his profession) ₹ 12,000
- (iii) Winning from Lottery (ticket purchased on the name of Mr. Ritesh's minor daughter) ₹ 6,800.
- (iv) Mr. Ritesh's father gifted debentures of an Indian company to Mr. Ritesh's minor son and company paid gross interest ₹ 6,650.
- (v) Interest on debentures purchased by Mr. Ritesh but gifted to Mrs. Ritesh ₹ 18,000.

Sol. Computation of Total Income of Mr. Ritesh
(for the Assessment Year 2021-22)

	₹
(i) Income from profession	86,500
(ii) Personal income of minor	—

(iii) Winning from lottery (Income of minor daughter, exempt upto ₹ 1,500) (6,800 – 1,500)	5,300
(iv) Debentures interest (Income of minor son, exempt upto ₹ 1,500) (6,650 – 1,500)	5,150
(v) Debentures interest, debentures gifted to wife (Income of Mr. Ritesh)	18,000
	Gross Total Income 1,14,950
Less : Deduction	Nil
	Total Income 1,14,950

Q.4. Discuss the treatment of carried forward losses of certain assesseees.

Ans. Treatment of Carried Forward Losses of Certain Assesseees

- (1) **Losses of the firm** : The share of loss from a firm cannot be set-off by a partner against his incomes. However, the firm can carry-forward and set-off its losses as per the provisions discussed above.
- (2) **Losses of a firm in the case of a change in its constitution** : If a change has occurred in the constitution of a firm, the firm cannot carry-forward the share of loss of the retiring or deceased partner.
- (3) (a) **Losses of closely-held companies** : Such a company shall be allowed to carry-forward and set-off its losses of earlier years against the income of the previous year provided that shares carrying at least 51% of the voting power are held by the same persons at the end of the previous year as they were held at the end of the year when loss was incurred.
- (b) **Losses of an eligible startup company** : In case of a closely held company, being a start-up (Sec. 80-IAC) the loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, if all the share holders of such company who held shares carrying voting power on the last day of the years or years in which the loss was incurred :
 - (i) continue to hold shares on the last day of such previous year; and
 - (ii) such loss has been incurred during the period of seven years beginning from the year in which such company is incorporated.

[Loss incurred by an eligible start-up shall be allowed to be carried forward and set-off against the income of previous year if it satisfies condition mentioned in 3(a) or 3(b). (w.e.f. Assessment Year 2020-21)].

Q.5. Mr. Arnav's particulars of income for the previous years 2019-20 and 2020-21 are as under :

	Previous Years	
	2019-20	2020-21
	₹	₹
Business Profit or Losses (before depreciation)	– 55,000	35,000
Current Depreciation	20,000	18,000
Income from Other Sources	30,000	40,000

Find out the gross total income of Mr. Arnav for the Assessment Years 2020-21 and 2021-22.

Sol. Computation of Gross Total Income of Mr. Arnab
(for the Assessment Year 2021-22)

	₹	₹
Income from other sources	30,000	
Less : Business Loss to the extent of income	30,000	
	<u>30,000</u>	
	Gross Total Income	Nil
Carried forward Business Loss ₹ 25,000		
Carried forward Unabsorbed Dep. ₹ 20,000		

Computation of Gross Total Income of Mr. Arnab
(for the Assessment Year 2021-22)

Profit of Business	35,000	
Less : Current Depreciation	18,000	
	<u>17,000</u>	
Less : B/fd Business Loss	17,000	Nil
Income from other sources	40,000	
Less : Unabsorbed Depreciation	20,000	20,000
	<u>20,000</u>	
	Gross Total Income	<u>20,000</u>

Note : B/fd business loss can be set-off against profits from the business. Hence, business loss ₹ 8,000 for the Assessment Year 2020-21 shall be c/fd to the Assessment Year 2022-23.

Unabsorbed depreciation can be set-off against any income.

Q.6. The following are the particulars of the income of an assessee for the last four Accounting Years :

	2017-18	2018-19	2019-20	2020-21
	₹	₹	₹	₹
Profit or Losses before Depreciation	(-) 40,000	45,000	52,000	(-) 60,000
Depreciation for the year	17,000	15,000	15,000	18,000
Deposit of Tea Development A/c	—	—	20,000	—
Other taxable income	—	58,000	—	27,000

Work out the amount to be set-off or carried forward in each of the above four years appending explanatory notes.

Sol. Computation of Gross Total Income
(for the Assessment Year 2018-19)

1. Business loss c/f ₹ 40,000
2. Unabsorbed depreciation c/f ₹ 17,000

Computation of Gross Total Income
(for the Assessment Year 2019-20)

	₹
Profit before depreciation	45,000
Less : Depreciation	15,000
	Balance 30,000
Less : B/f business loss	30,000
Business Income	Nil
Other Income	58,000
Less : Unabsorbed depreciation	17,000
Gross Total Income	41,000

Notes :

- (1) Business Loss of c/f ₹ 10,000.
- (2) Unabsorbed depreciation can be set-off against any Income.

Computation of Gross Total Income
(for the Assessment Year 2020-21)

	₹
Profit before depreciation	52,000
Less : Depreciation	15,000
	37,000
Less : Deposit to Tea Development A/c Max. 40% of Profit after Depreciation	14,800
	22,200
Less : B/f Business Loss	10,000
Business Income	12,200

Computation of Gross Total Income
(for the Assessment Year 2021-22)

	₹
Other Income	27,000
Less : Business Loss to the extent of Income	27,000
Business Income	Nil

1. Business Loss c/f ₹ 33,000
2. Unabsorbed depreciation c/f ₹ 18,000.

Q.7. Discuss the voluntary return of Income.**Ans. Voluntary Return of Income**

1. **Return by an individual, HUF, AOP, BOI or an Artificial Juridical Person :** Every individual, HUF, AOP, BOI or an artificial juridical person shall file the return on or before the due date, of his total income or the total income of any person (in respect of

which he is assessable), if the income without giving effect to the provisions of sections 80C to 80U exceeded the maximum amount which is not chargeable to income tax.

2. **Return by a Company or a Firm** : Every company or a firm shall furnish on or before the due date the return in respect of its income or loss in every previous year.
3. **Return by Ordinarily Resident Person having Assets Located Outside India** : An ordinarily resident person (who is not required to furnish the return otherwise), who at any time during the previous year (a) holds, as a beneficial owner or otherwise any asset (including financial interest in any entity) located outside India or has signing authority in any account located outside India or (b) a beneficiary of an asset (including any financial interest in any entity) located outside India, shall furnish on or before due date a return in respect of income on loss for the previous year.
4. **Return on behalf of a Charitable Trust, etc.** : If the total income of a charitable or religious trust (without deducting exempted incomes under sections 11 and 12) exceeds the non-taxable maximum limit, it shall furnish a return of income for the previous year on or before the due date.
5. **Return on behalf of a Political Party** : The Chief Executive Officer of every political party, if the total income of the party (without deducting exempted incomes under section 13A) exceeds the maximum amount which is not chargeable to tax, furnish a return of income of the previous year on or before the due date.
6. **Return by other Persons** : If the total income of a person (without giving exemption under section 10) exceeds the maximum amount which is not chargeable to tax, furnish a return of income of the previous year on or before the due date.

Q.8. State the major documents required to file income tax return.

Ans. Documents Required to File Income Tax Return

When filing income tax return online or physically, it is always a good idea to be prepared. The below mentioned details serve as a checklist to help assessee get started with the e-filing of income tax returns.

1. General Details that would be Required

- (i) Bank account details,
- (ii) PAN.

2. Reporting Income from Salaries Required

- (i) Rent receipts for claiming HRA,
- (ii) Form 16,
- (iii) Pay slips,

3. Reporting Income from House Property Required

- (i) Address of the house property.
- (ii) Details of the co-owners along with their share in the mentioned property and PAN details.
- (iii) Certificate for home loan interest.

- (iv) The date when construction was completed, in case an under-construction property was purchased.
- (v) Name and the rental income of the tenant, if the property is rented.

4. Reporting Capital Gains Required

- (i) There is a requirement of a stock trading statement with purchase details, in case there are capital gains from selling the shares.
- (ii) If a house or property is sold, assessee must sought sale price, purchase price, details or registration and capital gain details.
- (iii) Mutual fund statement (details), purchase and sale of equity funds, debt funds, SIPs and ELSS.

5. Reporting Income from other Sources Required

- (i) The income from interest is reported. In case of interest accumulated in savings account, bank account statements are required.
- (ii) Interest income from tax saving bonds and corporate bonds must be reported.
- (iii) The income details earned from post office deposit must be reported.

Q.9. What are the steps involved in the process of filing ITR 1 and ITR 4S online?

Ans. Steps to File ITR 1 and ITR 4S Online

Assessee can submit assessee ITR 1 or ITR 4S forms by uploading XML on the official website or by online submission. The below mentioned steps should be able to guide the assessee :

1. Login to e-Filing application.
2. Go to 'e-File' and click on 'Prepare and Submit ITR Online'.
3. Choose the Income Tax Return Form ITR 1 or ITR 4S and enter the assessment year.
4. Complete the details and then click on 'Submit' and select 'DSC (Digital Signature Certificate)', in case it's available. Now, click on the 'Submit' button.
5. Once the submission is done, acknowledgement detail is displayed.
6. Click on the link to view or take a printout of the acknowledgement or ITR V form.
7. In case assessee wish to use DSC, assessee will have to register it in the e-filing application. Simply log into the e-filing website of the income tax Department and update the 'Profit Settings' section. Under this section, assessee need to select 'Register Digital Signature' Certificate and download the ITD e-Filing DSC Management Utility.
8. It is worthy to note that for Assessment Year 2021-22, ITR 1 to 4 can be filed using single JSON Utility (as Excel & Java version of ITR utilities has been discontinued from Assessment Year 2021-22).

Q.10. What are the major things that should be kept in mind while e-filing?

Ans. Things to Keep in Mind while E-filing

A couple of facts need to be considered when filing income tax returns online. Here's a comprehensive list of all of them :

1. In case name which is mentioned in bank documents or official statements is different from the one given in the PAN card even a bit, the portal will consider assessee a completely separate individual. In some cases, some tax payers give their father's name as their 'middle' name in their PAN card, but do not use the same for their bank accounts.

2. If the same mobile number or email address is entered by more than four tax payers online, assessee cannot file returns on the website, unless the required change is done. For instance, in some cases, more than five returns may be filed which may include assessee, his wife, his mother, his father in law and the Hindu undivided family (HUF) of which assessee is the Karta or the executor of a will.
3. If assessee is a non-resident Indian and wish to file income tax returns, assessee will require both, an India number and a foreign number.

Q.11. What is 'Permanent Account Number'? Discuss the various cases under which PAN is compulsory.

Ans. Permanent Account Number

The Income Tax Department issues a permanent account number (PAN) to every tax-payer borne on its records. The permanent account number is meant to identify the returns, tax payment challans and the correspondence received from the assessee and link these to their assessment records to facilitate quick disposal of their refund claims or assessments.

Cases under which PAN is Compulsory :

- (i) Total income exceeds the exemption limit.
- (ii) Any person liable to pay tax on behalf of other person as a representative assessee.
- (iii) Any person carrying on a business or profession whose total sales, turnover or gross receipts are likely to exceed ₹ 5,00,000 in any previous year.
- (iiia) Charitable trust.
- (iiib) Person being a resident other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year.
- (iiic) The managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person mentioned in (iiib), or any person competent to act on behalf of the person mentioned in (iiib).
- (iv) If he is entitled to receive any sum or income or amount on which tax is deductible at source.
- (v) Every person who intends to enter into certain such transaction as may be prescribed by the Board in the interest of revenue.

Q.12. Nikita's income under the head 'Salaries' is computed at ₹ 7,29,500. The contribution in Recognised Provident Fund and Public Provident Fund are ₹ 50,000. She has paid Life Insurance Premium of ₹ 15,000 on a policy of ₹ 1,20,000 taken after 1.4.2012 and purchased shares of eligible issue of capital ₹ 5,000. Compute the amount of tax to be deducted at source during the financial year 2021-22. She has informed to the employer that there is a loss under the head 'Income from House Property' on account of interest payment in relation to self-occupied house ₹ 30,000.

Sol. Computation of Tax Deductible at Source from Salary
(for the Assessment Year 2022-23)

	₹
Salary income	7,29,500
Less : Loss from House Property	30,000
Gross Total Income	6,99,500

<i>Less</i> : Deduction u/s 80C :	₹	
(1) Contribution to R.P.F. & P.P.F.	50,000	
(2) LIP 10% of sum assured	12,000	
(3) Eligible issue of Capital	5,000	67,000
	<u> </u>	<u> </u>
	Total Income	6,32,500
 Tax on ₹ 6,32,500 :		
On ₹ 2,50,000	Nil	
On ₹ 2,50,000 @ 5%	12,500	
On ₹ 1,32,500 @ 20%	26,500	39,000
	<u> </u>	<u> </u>
<i>Add</i> : Surcharge		Nil
		39,000
<i>Add</i> : Health and Education Cess @ 4%		1,560
		<u> </u>
	Tax Deductible from Salary	<u>40,560</u>

Monthly tax to be deducted at source ₹ 3,380.

Q.13. What are the requirements to furnish permanent account number?

Ans. Requirement to Furnish Permanent Account Number

- (1) Any person entitled to receive any sum or income or amount, on which tax is deductible at source shall furnish his PAN to the deductor of tax at source.
- (2) If he fails to do so, the tax shall be deducted at the higher of the following rates :
 - (i) at the rate specified in the relevant section; or
 - (ii) at the rate or rates in force; or
 - (iii) at the rate of 20% (In case of section 194-0 at the rate 5%).

Note : When tax is deducted @ 20%, Health and Education Cess @ 4% shall not be deducted at source.

- (3) If the person fails to quote his PAN on Form 15G or 15H (No deduction of tax at source u/s 197A) it will be treated as invalid form and tax will be deducted at the rate mentioned in (2).
- (4) If a person fails to quote his PAN on an application for grant a certificate for deduction of tax at a lower rate u/s 197, no certificate shall be granted to him.
- (5) The deductee shall furnish his PAN to the deductor and both shall indicate the same in all correspondence, bills, vouchers and other documents which are sent to each other.
- (6) Where the PAN provided to deductor is invalid or does not belong to the deductee, it shall be deemed that the deductee has not furnished his PAN to the deductor and tax shall be deducted as provided in (2).

Q.14. Ravita's gross income under the head 'Salaries' is ₹ 8,50,000. Her contribution in recognised provident fund is ₹ 40,000. She has paid premium of ₹ 10,000 on life insurance policy. She has loss under the head 'Income from House Property' on account of interest payment in relation to self occupied house ₹ 25,000. Compute the tax to be deducted at source during the financial year 2021-22 if she does opt new tax regime.

Sol. Computation of Tax Deductible at Source from Salary
(for the Assessment Year 2022-23)

	₹
Gross income from salary	8,50,000
Less : Loss from House Property	N.A.
	Gross Total Income 8,50,000
Less : Deduction u/s 80C	
Contribution to RPF	N.A.
LIP	N.A.
	Total Income 8,50,000
Tax on ₹ 8,50,000	
On ₹ 2,50,000	Nil
On ₹ 2,50,000 @ 5%	12,500
On ₹ 2,50,000 @ 10%	25,000
On ₹ 1,00,000 @ 15%	15,000
Add : Surcharge	Nil
	52,500
Add : Health and Education Cess @ 4%	2,100
	Tax Deductible at Source 54,600

Monthly tax to be deducted at source ₹ 4,550.

Q.15. Discuss computation of advance tax payable by an assessee in the financial year.

Ans. Computation of Advance Tax

The amount of advance tax payable by an assessee in the financial year shall be computed as follows :

- I. (1) **Computation by the Assessee** : Where advance tax is payable, the assessee himself shall compute the advance tax payable on his estimated current income at the rates in force in the financial year and deposit the same whether or not he has been earlier assessed to tax or not.
- (2) **Computation by Assessing Officer** : Where a person has already been assessed by way of regular assessment and who has not paid any advance tax, the Assessing Officer will take the total income of the latest assessed previous year or the total income returned by the assessee for any subsequent previous year, whichever is higher. On such income, income tax will be calculated at the rates in force in the Financial Year.
- (3) The income tax calculated under para (1) or (2) above, as the case may be, shall, in each case, be reduced by the amount of tax deductible or collectable at source during the financial year from any income which has been taken into account computing the current income or total income. The balance will be the amount of advance tax payable.

However, the deduction, for tax deductible at source or tax collectable at source, shall not be allowed if the tax deductor or tax collector has failed to deduct or collect the tax at source.

II. Net Agricultural Income to be taken into account : Where, in the case of any class of assessee, net agricultural income has to be taken into account for computing advance tax, such income will be added to the aforesaid income and the tax shall be computed in the manner discussed in the chapter 'Agricultural Income'.

Q.16. Alisha has estimated the following incomes for the financial year 2021-22 : ₹

Income from House Property (Taxable)	65,000
Income from Profession (Taxable)	7,07,500
Dividend from ABC & Co. (Foreign company)	10,000

Determine the amount of installments payable as advance tax.

Ans.

Computation of Total Income
(for the Financial Year 2021-22)

	₹
Income from House Property	65,000
Income from Profession	7,07,500
Income from Other Sources :	
Dividend	10,000
	Gross Total Income 7,82,500
Less : Deduction	Nil
	Total Income 7,82,500

Computation of Advance Tax Payable
(for the Financial Year 2021-22)

	₹
Tax on ₹ 7,82,500 :	₹
On first ₹ 2,50,000	Nil
On Next ₹ 2,50,000 @ 5%	12,500
Next Balance ₹ 2,82,500 @ 20%	56,500
	69,000
Add : Surcharge	Nil
	69,000
Add : Health and Education Cess @ 4%	2,760
	71,760
Less : Tax deducted at source	Nil
	Advance Tax payable 71,760

Amount payable on each installment :

up to 15.6.2021 15% of ₹ 71,760	10,764
up to 15.9.2021 30% of ₹ 71,760	21,528
up to 15.12.2021 30% of ₹ 71,760	21,528
up to 15.3.2022 25% of ₹ 71,760	17,940
	<u>71,760</u>

Q.17. Mr. Jai Prakash estimates his current income for the financial year 2021-22 as follows :

Taxable Income from business	6,84,500
Capital gains (Short-term)—Not from securities	13,000
Income from other sources	<u>26,000</u>
Gross Total Income	7,23,500
	₹
Less : Deduction u/s 80C (LIP)	3,000
Deduction u/s 80D (Medical Insurance Premium)	<u>500 3,500</u>
	Total Income <u>7,20,000</u>

Tax will be deducted at source ₹ 1,760, income from other sources includes interest on debentures of a company.

Calculate advance income tax and find out installments.

Ans. Computation of Advance Income Tax
(for the Financial Year 2021-22)

Tax on total income ₹ 7,20,000 :	₹
on First ₹ 2,50,000	Nil.
on Next ₹ 2,50,000 @ 5%	12,500
on Balance of ₹ 2,20,000 @ 20%	<u>44,000</u>
	Total Tax 56,500
Add : Surcharge	<u>Nil</u>
	56,500
Add : Health and Education Cess @ 4%	<u>2,260</u>
	58,760
Less : Tax deducted at source	<u>1,760</u>
	Advance Income Tax <u>57,000</u>

Advance Tax Installment :

15th June, 2021 or before 15% of ₹ 57,000	8,550
15th Sept., 2021 or before 30% of ₹ 57,000	17,100
15th Dec., 2021 or before 30% of ₹ 57,000	17,100
15th March, 2022 or before 25% of ₹ 57,000	<u>14,250</u>
	<u>57,000</u>

Q.18. Jugnu, an individual assessee has estimated the following income for the financial year 2021-22 :

	₹
Taxable Income from House Property	1,00,000
Taxable Income from Profession	7,50,000
Dividend from Foreign Company	5,000
Gross Interest on Securities	15,000
(i) He will deposit in Public Provident Fund	40,000
(ii) He will pay Life Insurance Premium	20,000

Determine the amount payable as advance tax on prescribed dates during the financial year 2021-22 if he does opt new tax regime.

Sol. **Computation of Total Income**
(for the Assessment Year 2021-22)

	₹
Income from House Property	1,00,000
Income from Profession	7,50,000
Income from Other Sources :	₹
Dividend	5,000
Interest on Securities	15,000
	20,000
	<hr/>
Gross Total Income	8,70,000
	Nil
Less : Deduction u/s 80C to 80U	<hr/>
	Total Income <u>8,70,000</u>

Computation of Advance Tax Payable
(for the Financial Year 2021-22)

	₹
Tax on ₹ 8,70,000 :	
on first ₹ 2,50,000	Nil
on next ₹ 2,50,000 @ 5%	12,500
on next ₹ 2,50,000 @ 10%	25,000
on balance ₹ 1,20,000 @ 15%	18,000
	<hr/>
Add : Surcharge	Nil
	55,500
Add : Health and Education Cess @ 4%	2,220
	<hr/>
	57,720
Less : Tax deducted at source	Nil
	<hr/>
	Advance Tax Payable <u>57,720</u>
Amount payable in each instalment :	
upto 15.6.2021 @ 15% of 57,720	8,658
upto 15.9.2021 @ 30% of 57,720	17,316

upto 15.12.2021 @ 30% of 57,720	17,316
upto 15.3.2022 @ 25% of 57,720	14,430
	<u>57,720</u>

Q.19. The total income of Mr. Adams, resident of India, is ₹ 5,27,500. Calculate advance income tax payable during the financial year 2021-22 and find out installments if tax deducted at source is ₹ 180.

Sol. Computation of Advance Income Tax Payable
(for the Financial Year 2021-22)

	₹
Total Income	<u>5,27,500</u>
Tax on ₹ 2,50,000	Nil
Tax on ₹ 2,50,000 @ 5%	12,500
Tax on ₹ 27,500 @ 20%	5,500
	<u>18,000</u>
Add : Health and Education Cess @ 4%	720
	<u>18,720</u>
Less : Tax deducted at source tax payable	180
	<u>Tax Payable 18,540</u>
Advance Tax Installments :	
up to 15th June, 2021 15% of ₹ 18,540	2,781
up to 15th Sept., 2021 30% of ₹ 18,540	5,562
up to 15th Dec., 2021 30% of ₹ 18,540	5,562
up to 15th March, 2022 25% of ₹ 18,540	4,635
	<u>18,540</u>

Q.20. Shiva has to pay ₹ one lakh as advance Tax. He deposited the amount as under. Compute interest payable u/s 234C:

On 15.06.2020	14,000
On 15.09.2020	20,000
On 15.12.2020	45,000
On 15.03.2021	21,000

Sol.

- I Installment paid ₹ 14,000
The amount is not less than 12% of ₹ 1,00,000
No interest as payable
- II Installment paid ₹ 20,000
The amount in I and II installments is less than 36% of ₹ 1,00,000
Hence, interest payable on ₹ 45,000 – 34,000 = ₹ 11,000 @ 1% for 3 months = ₹ 330
- III Installment paid ₹ 45,000

The amount in I, II & III installments paid is not less than 75% of ₹ 1,00,000.

Hence, no interest is payable.

4. IV Installment paid ₹ 21,000

The amount in I, II, III and IV installments paid is not less than 100% of ₹ 1,00,000.

Hence, no interest is payable.

Interest payable = ₹ 330.

SECTION-C (LONG ANSWER TYPE) QUESTIONS

Q.1. What are deemed incomes? Discuss the various deemed incomes.

Ans. Deemed Incomes

In certain cases, some amounts are deemed as income in the hands of the assessee, though they are actually not in the nature of income. The object of deeming the amount is income is to check tax evasion.

The following are the deemed incomes :

1. Cash credits.
2. Unrecorded and unexplained investments.
3. Unrecorded and unexplained money, etc.
4. Amount of investments, etc. not fully disclosed in books of account.
5. Unexplained expenditure, etc.
6. Amount borrowed or repaid on hundi.

(1) **Cash Credits** : If any sum is found credited in the books of an assessee maintained for the previous year and the assessee offers no explanation about its nature and source or the explanation offered by him is not satisfactory, the sum so credited may be charged to income tax as the income of the assessee for the previous year.

The following shall also be treated as deemed income under *section 68* :

Where a closely held company credits any sum in its books as share application money, share capital, securities premium reserve, etc., it shall be deemed unexplained unless :

- (i) The resident person in whose name such credit is recorded in the books of such company also offers an explanation about the nature and source of such sum so credited; and
- (ii) Such an explanation in the opinion of A.O. is satisfactory.

However, this provision shall not apply if the amount is recorded in the name of a venture capital fund or a venture capital company. (Sec. 68)

(2) **Unrecorded and Unexplained Investments** : If in the relevant previous year the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and source of money invested or the explanation offered by him is not satisfactory, the value of the investments may be deemed to be the income of the assessee for such previous year. (Sec. 69)

(3) **Unrecorded and Unexplained Money etc.** : If in any financial year the assessee is found to be the owner of any unrecorded money, bullion, jewellery or valuable articles, and offers no explanation about the nature and source of acquisition of these items or the explanation offered by him is not satisfactory, the money and the value of the

bullion, jewellery or other valuable articles may be deemed to be the income of the assessee for such financial year. (Sec. 69A)

- (4) **Amount of Investments not Fully Disclosed in Books of Accounts :** If in any financial year the assessee has made investment or is found to be the owner of any bullion, jewellery or other valuable articles and the Assessing Officer finds that the actual sum spent on these items is more than what is recorded in the books of account and the assessee either offers no explanation about such excess amount or the explanation offered by him is not satisfactory, the excess amount may be deemed to be the income of the assessee for such financial year. (Sec. 69B)
- (5) **Unexplained Expenditure :** If in any financial year an assessee has incurred any expenditure and the assessee is unable to explain properly the source of such expenditure or part thereof, the amount of such unsatisfactorily explained expenditure will be treated as the income of the assessee for the financial year in which the expenditure is incurred. (Sec. 69C)
- (6) **Hundi Borrowals and Repayments :** Borrowals on hundies and repayments thereof must be made by Account Payee cheques otherwise the amount so borrowed or repaid will be treated as the income of the person borrowing or repaying the amount for the previous year in which such borrowal or repayment is made. The amount repaid shall include the amount of interest on the amount borrowed.
If any amount borrowed on hundi has been deemed to be the income of the borrower, he shall not be liable to be assessed again in respect of such amount on repayment of such amount. (Sec. 69D)

Q.2. Discuss the carry-forward and set-off of losses.

Ans. Carry-forward and Set-off of Losses

If it is not possible to set-off the losses during the same assessment year in which they occurred, so much of the loss as has not been so set-off out of the following losses can be carried forward for being set-off against his income in the succeeding years **provided the losses have been determined in pursuance of a return filed by the assessee within the time allowed u/s 139(1) and it is the same assessee who sustained the loss :**

- (1) Loss under the head 'Income from House Property'.
- (2) Loss of non-speculation business or profession.
- (3) Loss of speculation business.
- (3A) Loss of specified business.
- (4) Short-term capital loss or Long-term capital loss.
- (5) Loss from the activity of owning and maintaining race horses.

Any loss other than mentioned above cannot be carried forward and set-off in succeeding year.

- (1) **Loss from House Property :** The unabsorbed loss under the head 'Income from House Property' shall be carried forward and set-off in subsequent assessment years up to a maximum of eight assessment years against income from house property. (Sec. 71B)
- (2) **Carry-forward and Set-Off of Non-speculation Business Losses :** If for any assessment year the net result under the head 'Profits and Gains of Business or Profession' is a loss to the assessee (not being a loss of speculation business), so much of the loss as has not been so set-off shall be carried forward to the following

assessment year and it shall be set-off against the income under the head 'Profits and Gains of Business or Profession'. If the loss cannot be wholly set-off in the following year, it shall be carried forward for a maximum period of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

[Sec. 72(1)]

If the business or profession has been discontinued loss can be carried forward and set-off against profits and gains of business or profession.

Other important points regarding carry-forward of business losses :

- (i) **Losses of discontinued business of an industrial undertaking after re-establishment or revival** : If on account of natural calamities, like flood, cyclone, earthquake, riot, fire or enemy action etc., the business of the industrial undertaking is discontinued but revived within 3 years thereafter, the unabsorbed losses of the undertaking shall be carried forward and set-off against the profit of the revived business or any other business up to a maximum period of 8 years as reckoned from the year in which the business is re-started.
- (ii) **Treatment of Losses after succession takes place by inheritance** : The loss incurred by the father in the course of carrying on his business can be carried forward and set-off by his son, if he succeeds to the business of his father on account of his death.
- (3) **Losses of Speculation Business** : If for any assessment year any loss computed in respect of speculation business has not been wholly set-off in the same assessment year against profits and gains of any other speculation business, so much of the loss as is not so set-off shall be carried forward to the following assessment year and it shall be set-off against the profits and gains, if any, of any speculation business, carried on by him. If the loss cannot be wholly set-off in the following year, it shall be carried forward for a maximum period of four assessment years immediately succeeding the assessment year for which the loss was first computed. [Sec. 73(2)(4)]
- (3A) **Carry-forward and Set-Off of Loss of Specified Business** : The brought forward loss of specified business shall be set-off against the profits and gains, if any, specified business, carried on by the assessee. The loss can be carried forward and set-off till it is fully set-off. [Sec. 73A(2)]
- (4) **Carry-forward and Set-Off of Capital Losses** : (a) **Short-term Capital Loss** : Short-term capital loss which cannot be wholly set-off in the same assessment year, against income under the head capital gains shall be carried forward to the following assessment year and shall be set-off against income, under the head capital gains. If the entire amount of carried forward capital loss cannot be set-off in the following assessment year, the amount remaining unabsorbed shall be carried forward to be set-off against capital gains in subsequent years up to a maximum of eight assessment years immediately the succeeding the assessment year for which the loss was first computed. [Sec. 74(1) and (2)]
- (b) **Long-term Capital Loss** : The long-term capital loss which cannot be wholly set-off in the same assessment year against long-term capital gain shall be carried

forward to the following assessment year to be set-off against long-term capital gain, if any. This loss can be carried forward for a maximum period of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

- (5) **Loss from Owning and Maintaining Race Horses** : Owners of race horses are allowed to carry-forward and set-off the loss incurred by them on the maintenance of race horses against their income from the same source (*i.e.*, income from the activity of owning and maintaining race horses in a subsequent year). This loss can be carried forward for four assessment years following the assessment year when the loss was computed. [Sec. 74(A)(3)(b)]
- (6) **Accumulated Non-Speculative Business Loss and Unabsorbed Depreciation in cases of Amalgamation** : If a company : [Sec. 72A(1)]
- (i) Owning an industrial undertaking or a ship or a hotel amalgamates with another company, or
 - (ii) A banking company amalgamates with a specified bank, or
 - (iii) One or more public sector company or companies engaged in the business of operation of aircraft amalgamates with one or more public sector company or companies engaged in a similar business, the accumulated loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or depreciation of the amalgamated company of the previous year in which the amalgamation was effected. Thus, the amalgamated company will be entitled to carry-forward and set-off the loss and unabsorbed depreciation of the amalgamating company.

Conditions for set-off :

- (1) The amalgamating company fulfils the following conditions :
 - (a) It has been engaged in the business in which the accumulated loss occurred or depreciation remains unabsorbed, for three or more years.
 - (b) It has held continuously as on the date of amalgamation at least three-fourth of the book-value of fixed assets held by it two years prior to the date of amalgamation.
- (2) The amalgamated company fulfils the following conditions :
 - (a) The amalgamated company holds at least 75% of the book value of fixed assets of the amalgamating company, acquired as a result of amalgamation, for five years from the effective date of amalgamation.
 - (b) The amalgamated company continues the business of the amalgamated company for at least five years from the date of amalgamation.

Section 72A to be made applicable in case of amalgamation or demerger of public companies and strategic disinvestment of such companies : Section 72A would be applicable in case of amalgamation of one or more Public Sector Company or companies with one or more public sector company or companies.

Further, it shall also apply in case of amalgamation of an erstwhile public sector company with one or more company or companies, if :

- (a) The share purchase agreement entered into under strategic disinvestment restricted immediate amalgamation of the said public sector company; and

(b) The amalgamation is carried out within five year from the end of the previous year in which the restriction on amalgamation in the share purchase agreement ends.

For this purpose, "Erstwhile public sector company" is defined to mean a company which was a public sector company in earlier previous years and ceases to be a public sector company by way of strategic disinvestment by the Government.

"Strategic disinvestment" shall mean the sale of shareholding by the Central Government or any State Government in a public sector company which results in the reduction of its shareholding to below 51%, along with transfer of control to the buyer.

(7) Accumulated non-speculative Business Losses and Unabsorbed Depreciation in Case of Demerger : Where there has been a demerger of an undertaking, the accumulated loss and the unabsorbed depreciation transferred by the demerged company to the resulting company shall be allowed to be carried forward and set-off in the hands of the resulting company. [Sec. 72A(4)]

The resulting company can carry-forward and set-off such loss for the balance period for which it can be carried forward and set-off by the demerged company if there is no demerger.

(8) Accumulated non-speculative Business Losses and Unabsorbed Depreciation in Cases of Succession : Where a firm is succeeded by a company or a proprietary concern is succeeded by a company, which fulfils the prescribed conditions, the accumulated loss and unabsorbed depreciation of predecessor firm/proprietary concern shall be deemed to be the loss and unabsorbed depreciation of the successor company for the previous year in which business reorganisation was effected. The provisions of the Act relating to set-off and carry-forward loss and unabsorbed depreciation shall apply accordingly. [Sec. 72A(6)]

The above provisions shall also apply in a case where a private company or unlisted public company is converted into a limited liability partnership.

Note : For carry-forward and set-off unabsorbed depreciation see the chapter on 'Depreciation'.

(9) Accumulated non-speculative Business Losses and Unabsorbed Depreciation in Case of the Amalgamation of a Banking Company : Where a banking company amalgamates with any other banking institution under a scheme sanctioned and brought into force by the Central Government, the accumulated non-speculative business loss and the unabsorbed depreciation of such banking company shall be deemed to be the loss or unabsorbed depreciation of such banking institution for the previous year in which the scheme of amalgamation was brought into force. (Sec. 72AA)

Note : (1) Definition of amalgamation given in Sec. 2(1B) shall not apply in this case.

(2) Conditions given in Sec. 72A shall not apply in this case.

(10) Carry-forward and set-off of Accumulated non-speculative Business Losses and Unabsorbed depreciation in Case of Business reorganisation of the co-operative bank : For the purposes of this section business reorganisation includes: (Sec. 72AB)

(i) Amalgamation of a co-operative bank with another co-operative bank.

(ii) Demerger of a co-operative bank with another co-operative bank.

The provisions relating to set-off of accumulated non-speculative business loss and unabsorbed depreciation are the same as discussed under "Accumulated non-speculative business losses and unabsorbed depreciation in case of amalgamation and demerger"—except the following :

- (1) The set-off shall be allowed to the successor co-operative bank as if the amalgamations had not taken place.
- (2) The period commencing from the beginning of the previous year and ending on the date immediately preceding the date of business reorganisation, and the period connecting from the date of such business reorganisation and ending with the previous year shall be deemed to be two different previous years for the purposes of set-off and carry-forward of loss and depreciation allowance.

Q.3. Mr. Dharmendra Singh submits the following information relevant for the Assessment Year 2021-22 :

	Income ₹	Loss ₹
Taxable Income from Salary	2,42,000	—
Income and Loss from House Property :		
House A	1,15,000	—
House B	—	3,30,000
Profit and Loss from Business :		
Business A	2,28,000	—
Business B	—	10,000
Business C (Speculative)	11,000	—
Business D (Speculative)	—	23,000
Capital Gains and Loss :		
Short-term Capital Gains	6,000	—
Short-term Capital Loss	—	28,000
Long-term Capital Gains	12,500	—
Income and Loss from Other Sources :		
Income from Card Games	13,000	—
Loss from Card Games	—	7,010
Loss on Maintenance of Race Horses	—	6,000
Interest on Securities	4,000	—

Determine the gross total income of Mr. Dharmendra Singh for the Assessment Year 2021-22.

Sol. Computation of Gross Total Income
(for the Assessment Year 2021-22)

	₹	₹
1. Taxable Income from Salary		2,42,000
2. Income from House Property :		
House A	1,15,000	
House B	(-) 3,30,000	
Loss from House Property	<u>2,15,000</u>	

3. Profit from Business :		
Business A	2,28,000	
Business B	(-) 10,000	
Income from Business	2,18,000	
Less : Loss of House Property up to ₹ 2,00,000	2,00,000	
Loss of House Property c/f ₹ 2,15,000 – 2,00,000 = ₹ 15,000		18,000
4. Profit from Speculative Business :		
Business C	11,000	
Business D	(-) 23,000	
	(-) 12,000	

It cannot be set-off against non-speculative income.

It will be c/f and set-off in the following 4 A.Ys. against speculative income.

5. Capital Gains :		
STCG	6,000	
LTCG	12,500	
	18,500	
STCL	(-) 28,000	
	(-) 9,500	

It can be set-off only against capital gains. It will be c/f and set-off in the following 8 A.Ys.

6. Income from Other Sources :		
(a) Income from card games		13,000
Loss from card games is not deductible.		
(b) Loss on the maintenance of Race Horses	6,000	—
It will be c/f and set-off in the following four Assessment Years from the income of maintenance of Race Horses.		
(c) Interest on securities		4,000
	Gross Total Income	2,77,000

Note : No exemption is allowed on casual income.

Q.4. Akshay Chaudhary a resident of India submits the following particulars of his income for the Assessment Year 2021-22 :

	₹
1. Income from house let out (Computed)	9,500
2. Profit from radio business	19,600
3. Income of interest from a firm	1,800
4. Speculation income	1,900
5. Short-term Capital gains	3,200
6. Long-term Capital gains	1,400

The following items have been brought forward from the preceding Assessment Year 2020-21 :

	₹
(i) Loss from radio business	4,600
(ii) Unabsorbed depreciation	1,000
(iii) Speculation loss	3,200
(iv) Short-term Capital loss for the year 2016-17	4,100
(v) Long-term Capital loss for the year 2017-18	3,950
(vi) B/fd loss from House Property	3,000

Current year's depreciation amounted to ₹ 500.

You are required to compute his gross total income and deal with the carry-forward of losses.

Sol. **Treatment of Carry-forward of Losses**
(for the Assessment Year 2021-22)

	₹	₹
1. House Property (Income)	9,500	
Less : B/fd loss	3,000	6,500
2. Business Income : Radio Business		19,600
Interest from Firm		1,800
		21,400
Less : Current Year's Depreciation		500
		20,900
Less : Business Loss b/fd		4,600
		16,300
Less : Unabsorbed Depreciation		1,000
Business Income carried to Statement to Total Income		15,300
3. Speculation Business : Income		1,900
Less : Speculation Loss b/fd		3,200
Loss carried forward		1,300
4. Capital Gains :		
(a) Short-term capital gains		3,200
Less : B/fd STCL		4,100
	STCL	900
	C/f	
(b) Long-term capital gains		1,400
Less : B/fd LTCL		3,950
	LTCL	2,550
	C/f	

Statement of Gross Total Income

1. Income from House Property	6,500
2. Income from Business	15,300
3. Capital Gains	Nil
Gross Total Income	21,800

Notes : 1. Speculation loss can be set-off against speculation profits only.

2. Brought forward short-term capital loss can be set-off against short-term capital gains as well as long-term capital gains.

3. Brought forward long-term capital loss can be set-off against long-term capital gains only.

Q.5. Elaborate the manners of furnishing the return of income.

Ans. Manners of Furnishing the Return of Income

The return of income shall be furnished by a person mentioned in column (ii) of the Table below to whom the conditions specified in column (iii) apply, in the manner specified in columns (iv) thereof :

Table

Sl.	Person	Condition	Manner of furnishing return of income
(i)	(ii)	(iii)	(iv)
1.	Individual or undivided family Hindu	(a) Accounts are required to be audited under section 44 AB of the Act; (b) An Individual resident of India and of the age of 80 years or more at any time during the previous year; who furnishes the return in Form No. ITR-1 (SAHAJ) or Form No. ITR-4 (SUGAM).	Electronically under digital signature. (A) Electronically under digital signature; or (B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V; or (D) Paper form.
		(c) In any other case	(A) Electronically under digital signature; or

			(B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V.
2.	Company Form ITR-6	In all cases.	Electronically under digital signature.
3.	A person required to furnish the return in Form ITR-7	(a) In case of political party (b) In any other cases	Electronically under digital signature; (A) Electronically under digital signature; or (B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V.
4.	Firm or limited liability partnership or any person (other than a person mentioned in Sl. 1 to 3 above) who is required to file return in Form ITR-5.	(a) Accounts are required to be audited under <i>section</i> 44AB of the Act. (b) In any other case	Electronically under digital signature; (A) Electronically under digital signature; or (B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V.

Q.6. Discuss the various steps to be followed to file income tax returns online.

Ans. Steps to Follow to File Income Tax Returns Online

Now, filling income tax income has become an extremely easy process, with the following steps :

- (1) To begin with, log on to IncomeTaxIndiaeFiling.gov.in and register on the website. Permanent Account Number (PAN) becomes user ID.
- (2) Now, assessee can view tax credit statement or Form 26AS. The TDS in Form 16 must tally with the figures in Form 26AS. If not, assessee must correct the discrepancy.
- (3) Click on the income tax return forms and choose the financial year assessee want to file returns for.
- (4) Then, assessee need to download the ITR from which applies to assessee. If exempt income (Agricultural income) exceeds ₹5,000, then the appropriate form will be ITR-2. However, assessee can complete the process on the portal itself, by using the 'Quick e-file ITR' link, if the applicable form is ITR-1 or ITR 4S.
- (5) Next step is to open excel utility, which is the downloaded return preparation software and enter all the details in the form using Form 16.
- (6) Calculate and get an estimate of the tax payable amount by clicking the 'calculate tax' tab.
- (7) Now, if applicable, pay tax and fill in the challan details.
- (8) Confirm all the information provided in the worksheet by clicking on the 'validate' tab.
- (9) Download this in an XML file and save it on desktop.
- (10) Then, go to 'upload return' on the portal's panel and upload the saved XML file.
- (11) A pop-up will be appear, requesting to digitally sign the file. In case assessee have digital signature, then, select 'Yes'. In case assessee have not got digital signature, select 'No'.
- (12) ITR Verification (ITR-V), which is the acknowledgment form will be generated in a downloadable format.
- (13) Generate a printout of the form ITR-V and sign it only in blue ink.
- (14) Send this form to the Income-Tax Department-CPC, Post Bag No. 1, Electronic City Post Office, Bangalore, 560100, Karnataka, by ordinary or speed post, within 120 days of filing returns online.

Q.7. Discuss the procedure of payment of advance tax by the assessee of his own accord or in pursuance of order of assessing officer.

Ans. Payment of Advance Tax by the Assessee of his Own Accord

- (1) Every person who is liable to pay advance tax (whether or not he has been previously assessed by way of regular assessment) shall, of his own accord, pay, on or before each of the due dates specified below, the appropriate percentage specified therein, of the advance tax on his current income.
- (2) A person who pays any instalment or instalments of advance tax under *sub-section* (1) may increase or reduce the amount of advance tax payable in the remaining instalment or instalments to accord with his estimate of his current income and the advance tax payable thereon.
- (3) In the case of a person who had already been assessed to income tax in respect of the total income of any previous year and the Assessing Officer is of the opinion that such person is liable to pay advance tax, he may, at any time during the financial year but not later than the last day of February, require such person to pay advance tax calculated in

the manner laid down in *section 209*, and to issue to such person a notice of demand specifying the installment or installments in which such tax is to be paid.

- (4) If, after the making of any order by the Assessing Officer under (3) and at any time before 1st March, a return is furnished by the assessee for any later year or any assessment of the assessee is made at a higher figure in respect of a previous year later than that referred to in (3), the Assessing Officer may make an amended order accordingly.
- (5) A person who is served with an order of the Assessing Officer under (3) or (4) may, if in his estimation the advance tax payable on his current income would be less than the amount of the advance tax specified in the order, send an intimation to the Assessing Officer to that effect and pay such tax as accords with his estimate.
- (6) A person who is served with an order of the Assessing Officer under (3) or (4) shall, if in his estimation the advance tax payable on his current income would exceed the amount of advance tax specified in the order or exceeds the amount of advance tax as intimated by him under (5) above, pay on or before the due date of the last installment, the whole of such higher amount of advance tax as accords with his estimate.

Q.8. Discuss the rules of charging interest for default in payment of advance tax.

Ans. Interest for Default in Payment of Advance Tax

- (1) If an assessee who is liable to pay advance tax (u/s 208) has failed to pay such tax, or where the advance tax paid (u/s 210) is less than 90% of the assessed tax, he shall be liable to 1st April next following such financial year to the date of determination of income u/s 143(1) or the regular assessment on an amount equal to the assessed tax or on the amount by which the advance tax paid as aforesaid falls short of the assessed tax as the case may be.

Explanation : "Assessed tax" shall mean the tax on the total income determined on the basis of return [u/s 143(1)] and where a regular assessment is made, the tax on the total income determined under regular assessment after deducting the following amounts :

- (i) any tax deducted at source;
 - (ii) tax collected at source;
 - (iii) any tax relief u/s 89;
 - (iv) any tax credit allowed to be set-off u/s 115JAA or u/s 115JD.
- (2) Where, before the date of determination of income [u/s 143(1)] or completion of regular assessment, tax is paid by the assessee on self-assessment [u/s 140A] the interest shall be computed as under :
 - (a) Interest shall be charged according to the foregoing provisions from 1st April till the date on which the tax is so paid and reduced by the interest, if any, paid along with the self-assessment tax.
 - (b) Thereafter, interest shall be calculated on the amount by which the tax so paid (Self-assessment) together with the advance tax paid falls short of the assessed tax.
 - (3) Where as a result of an order of re-assessment [u/s 147], the amount of tax has been increased the interest shall be charged for the period falling between the date of regular assessment and the date of re-assessment. The interest shall be charged on the

amount by which the tax on the total income determined on the basis of re-assessment exceeds the tax on the total income determined on the basis of regular assessment.

- (4) The amount of interest shall automatically be revised where the amount of tax is varied as a result of the revision, appeal, the rectification of mistake or settlement.

Q.9. Ravita Chaudhary (Resident in India and aged 82 years) has estimated the following taxable incomes for the financial year 2021-22 : ₹

Income from Business	11,97,000
Long-term Capital Gains on 10.10.2021	25,000
Interest (gross) from a branch of P.N.B. (F.D.R.)	26,000
Dividend (Co-operative Society)	3,000
	<u>12,51,000</u>
(i) She will pay life insurance premium on her own life	25,000
(ii) She will deposit in P.P.F.	70,000
(iii) Paid to P.M. Relief Fund by cheque	25,000
(iv) Health insurance premium paid in cash	2,000

Determine the amount payable as advance tax on prescribed dates during the financial year 2021-22.

Sol. Computation of Total Income
(for the Financial Year 2021-22)

		₹
Income from Business		11,97,000
Long-term Capital Gains		25,000
Income from Other Sources :		₹
Interest from Bank	26,000	
Dividend	3,000	29,000
		<u>12,51,000</u>
	Gross Total Income	<u>12,51,000</u>
Less : Deductions :		
(i) u/s 80C—LIP & PPF	95,000	
(ii) u/s 80D—Health insurance premium paid in cash, (Hence, not deductible)	—	
(iii) u/s 80G—Donation 100% of ₹ 25,000	25,000	
(iv) u/s 80TTB (Deduction up to ₹ 50,000)—Interest on Bank A/c	26,000	1,46,000
	<u>Total Income</u>	<u>11,05,000</u>

Computation of Advance Tax Payable on ₹ 10,80,000
excluding Long-term Capital Gains
(for the Financial Year 2021-22)

	₹	₹
First ₹ 5,00,000		Nil
Next ₹ 5,00,000 @ 20%	1,00,000	

Next Balance ₹ 80,000 @ 30%	24,000	1,24,000
Add : Surcharge		Nil
		1,24,000
Add : Health and Education Cess @ 4%		4,960
		1,28,960
Less : Tax deducted at source (In case of senior citizen or super senior citizen no TDS up to ₹ 50,000 on bank interest)		Nil
		1,28,960
Less : Tax on Long-term Capital Gains [on ₹ 25,000 @ 20% + Health and E.C. @ 0.8%]		5,200
	Advance Tax	1,34,160
Installments payable :		
up to 15.6.2021 15% of ₹ 1,28,960		19,344
up to 15.9.2021 30% of ₹ 1,28,960		38,688
up to 15.12.2021 75% of ₹ 1,34,160 less I & II Installments (1,00,620 – 58,032)		42,588
up to 15.3.2022 100% of ₹ 1,34,160 less I, II and III installments (1,34,160 – 1,00,620)		33,450
		1,34,160

Note : Long-term capital gains is derived after 15th September. Hence, advance tax on it shall be paid 75% in the third installment and 25% in the fourth installment.

Q.10. A Hindu Undivided Family has estimated the following taxable income for the financial year 2021-22 :

Income from House Property	80,000
Profit from Business	7,50,000
Interest on Fixed Deposit from bank (Gross)	10,000

Determine the amount payable as an advance tax on prescribed dates during the financial year 2021-22 if he does opt new tax regime.

Sol. Computation of Total Income
(for the Financial Year 2021-22)

	₹
Income from House Property	80,000
Profit from Business	7,50,000
Income from Other Sources :	
Interest on FD	10,000
	Gross Total Income
	8,40,000
Less : Deduction u/s 80C to 80U	Nil
	Total Income
	8,40,000

Computation of Advance Tax Payable
(for the Financial Year 2021-22)

	₹	₹
Tax on ₹ 8,40,000 :		
on first ₹ 2,50,000	Nil	
on next ₹ 2,50,000 @ 5%	12,500	
on next ₹ 2,50,000 @ 10%	25,000	
on balance ₹ 90,000 @ 15%	13,500	51,000
Add : Surcharge		Nil
		51,000
Add : Health and Education Cess @ 4%		2,040
		53,040
Less : Tax deducted at source		Nil
	Advance Tax Payable	53,040
Amount payable on each installment :		
upto 15.6.2021 @ 15% of ₹ 53,040		7,956
upto 15.9.2021 @ 30% of ₹ 53,040		15,912
upto 15.12.2021 @ 30% of ₹ 53,040		15,912
upto 15.3.2022 @ 25% of ₹ 53,040		13,260
		<u>53,040</u>

Q.11. Mr. Kapil, an individual assessee has estimated the following income for the financial year 2021-22 :

	₹
Taxable Income from House Property	1,00,000
Taxable Income from Profession	7,50,000
Dividend from Foreign Company	5,000
Gross Interest on Securities	15,000
(i) He will deposit in Public Provident Fund	40,000
(ii) He will pay Life Insurance Premium	20,000

Determine the amount payable as advance tax on prescribed dates during the financial year 2021-22 if he does opt new tax regime.

Sol.

Computation of Total Income
(for the Financial Year 2021-22)

	₹	₹
Income from House Property		1,00,000
Income from Profession		7,50,000
Income from Other Sources :		
Dividend	5,000	

Interest on Securities	15,000	20,000
	Gross Total Income	8,70,000
Less : Deduction u/s 80C to 80U		Nil
	Total Income	<u>8,70,000</u>

Computation of Advance Tax Payable

(for the Financial Year 2021-22)

Tax on ₹ 8,70,000 :	₹	₹
on first ₹ 2,50,000	Nil	
on next ₹ 2,50,000 @ 5%	12,500	
on next ₹ 2,50,000 @ 10%	25,000	
on balance ₹ 1,20,000 @ 15%	<u>18,000</u>	55,500
Add : Surcharge		Nil
		<u>55,500</u>
Add : Health and Education Cess @ 4%		2,220
		<u>57,720</u>
Less : Tax deducted at source		Nil
	Advance Tax Payable	<u>57,720</u>
Amount payable on each installment :		
upto 15.6.2021 @ 15% of 57,720		8,658
upto 15.9.2021 @ 30% 57,720		17,316
upto 15.12.2021 @ 30% of 57,720		17,316
upto 15.3.2022 @ 25% of 57,720		<u>14,430</u>
		<u>57,720</u>

Q.12. Explain the term 'Clubbing of Incomes' as per Income Tax Act.

Ans. Clubbing of Income

There is a growing tendency on the part of the tax-payers either not to disclose certain assets or investments in the records maintained by them or to disclose it at a figure lower than its cost. Further, they dispose off their property or income in such a way that tax liability may be avoided or reduced. An assessee, therefore, attempts to shift his income to others so that he may keep his tax liability to the minimum. For this purpose, he arranges to shift an income legally, which in fact belongs to him, to some other person. To counteract such practices, special provisions relating to clubbing of incomes have been made in sections 60 to 65. As per these sections, the income of other persons shall be included in the assessee's total income. Such inclusion of income of other person in the income of the assessee is called 'Clubbing of Income'.

Income of Other Persons included in the Assessee's Total Income : (Sec. 60 to 65)

- (1) **Transfer of income without transfer of assets :** If a person transfers to another person his income from an asset without transferring the ownership of the asset, the income from such asset shall be deemed to be the income of the transferor and shall be included in his total income. (Sec. 60)

- (2) **Revocable transfer of assets** : Income arising to any person as a result of the revocable transfer of assets shall be deemed to be the income of the transferor and shall be included in his total income. (Sec. 61)

'Revocable transfer' for this purpose means :

- (i) a transfer containing any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor; or
 (ii) a transfer which in any way, gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets.

(Sec. 63)

It may be noted that even if an insignificant part of the income out of the transferred asset ensures to the benefit of the transferor, the whole of the income shall be included in the income of the transferor.

- (3) **Income of spouse** : The following incomes of the spouse of an individual shall be included in the total income of the individual :
- (a) Income of the spouse by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a *substantial interest*.

[Sec. 64(1)(ii)]

Exception : If the payment of the above type of remuneration is purely due to the technical or professional qualification of the spouse, the remuneration paid to the spouse shall not be clubbed with the income of the individual. [Sec. 64(1)(ii) Proviso]

Substantial interest : (i) **In Case of Company** : An individual is deemed to have a substantial interest if he along with his relatives beneficially owns equity shares carrying at least 20% voting power in the company at any time during the previous year.

(ii) **In any other case** : If the concern is not a company, he along with his relatives is entitled to at least 20% of the profits of the concern at any time during the previous year.

The word 'spouse' means husband or wife.

The income referred to in sub-clause (a) above, shall be included in the total income of that spouse who has greater income [exclusive of income under clause (a)].

(b) If an asset (excluding house property) is transferred by an individual to his or her spouse, directly or indirectly, neither for adequate consideration nor in connection with an agreement to live apart, the income from such asset to the spouse, will be included in the income of the transferor. [Sec. 64(1)(iv)]

If the consideration is inadequate proportionate income shall be included in the income of the transferor. As regards the question of an agreement to live apart, the separation may be judicial or voluntary.

Note : The income from house property transferred to the spouse shall be computed under the head 'Income from House Property' in the hands of the transferor and not in the hands of the transferee.

- (4) **Income of daughter-in-law** : If an individual transfers assets after 31st May, 1973, without adequate consideration, to his daughter-in-law (Son's wife), any income arising from such assets will be included in the total income of the transferor.

[Sec. 64(1)(vi)]

(5) **Transfer of assets to other persons or Association of Persons for the benefit of the spouse** : If an individual transfers assets, without adequate consideration, to some other person or association of persons for the immediate or deferred benefit of his or her spouse, any income arising from such assets to that person or association will be included in the total income of the transferor to the extent is for the benefit of the spouse. For instance, suppose the income from the transferred assets are ₹ 10,000 and half of this is reserved for the benefit of the spouse of the transferor, then, ₹ 5,000 shall be included in the income of the transferor. [Sec. 64(1)(vii)]

(6) **Income from assets transferred to a person or Association of Persons for the benefit of his son's wife** : Any income arising, to any person or association of persons from assets transferred to it by an individual, after 31.5.1973, except for adequate consideration, shall, to the extent to which the income from such assets is for the immediate or deferred benefit of his son's wife, be included in the total income of such individual or the transferor. [Sec. 64(1)(viii)]

(7) **Income from Business** : If the individual transfers any assets directly or indirectly to the spouse or son's wife and such assets are invested by the transferee :

(i) in any business, but not as capital contribution as a partner in a firm or being admitted to the benefits of partnership in a firm, the amount calculated as under will be included in the income of transferor :

Value of the assets transferred by

transferor on the 1st day of previous year

Total investment on the 1st day

or previous year by the transferee

× The Profit share of transferee from business

(ii) in the nature of capital contribution as a partner in a firm, the interest received or receivable from the firm on such capital contribution will be included in the income of transferor. [Explanation 3 to Sec. 64(1)]

(8) **Income of a Minor Child** : The income of a minor child (including a minor married daughter) shall be included in the income of his or her parents. However, the income of a physically or mentally handicapped minor child shall not be included in the income of either of his parents. In such a case the total income of such minor child shall be computed separately.

The following are the provisions for the inclusion of income of the minor child in the income of a parent :

(i) where the marriage of his parents subsists, in the income of that parents whose total income is greater;

(ii) where the marriage of his parents does not subsist, in the income of the parent who maintains the minor child in the previous year.

Exceptions : The following incomes of a minor child shall not be included in the income of the parents

(i) income from manual work done by the minor;

(ii) income from activity involving the application of his skill, talent or specialised knowledge and experience. [Sec. 64(1A)]

Minor Child : A Minor child includes a step-child and an adopted child.

When the income of a minor child is included in the income of a parent, the parent concerned is entitled to exemption on the income so included or ₹ 1,500 per minor child, whichever is less u/s 10(32).

Example : X, a minor, earns a taxable income of ₹ 50,000 from interest. His father Y had two independent businesses of cloth and iron from which his taxable incomes are ₹ 60,000 and ₹ 2,40,000 respectively. His mother has no income. The marriage of his parents subsists. In this case, X's income of ₹ 50,000 less ₹ 1,500 [exempt u/s 10(32)] shall be clubbed with the income of his father, i.e., ₹ 3,00,000 and the total income of father shall be ₹ 3,48,500.

- (9) **Transfer of separate individual property or self-acquired property to Hindu Undivided Family of which he is a member or conversion of property :** If, after 31-12-1969, an individual transfers for inadequate consideration or converts his self-acquired property into the property of the Hindu Undivided Family of which he is a member, then the income from such property shall be deemed to be the income of the individual and not of the H.U.F. It will be included in the total income of the individual.

[Sec. 64(2)(a) and (b)]

Where such converted property is subsequently partitioned, the income from the converted property received by the spouse of the individual will be includible in the income of the individual who has converted the property, even after partition.

[Sec. 64(2)(c)]

- (10) **Benami transactions :** When a person enters into a transaction in the name of a person other than the real person in order to avoid tax, it is called a *benami* transaction and the person in whose name the transaction is effected is called *benamidar*. If, in the opinion of the Assessing Officer, a transfer is *benami*, he will treat the income of that transaction as the income of the real person and tax shall be levied on him for that transaction. No tax shall be levied on the *benamidar* for a *benami* transaction.

Q.13. Discuss the various provisions regarding setting-off of losses.

Ans. Provision Regarding Set-off of Losses

Set-off of losses means setting-off losses against income of the same year. The provisions regarding set-off of losses are as under :

- (1) **Set-off under the same head :** If the net result for any assessment year in respect of any source falling under any head of income is a loss, the assessee shall be entitled to have the amount of such loss set-off against the income from any other source under the same head. This is also called inter-source adjustment. [Sec. 70]

However, the following are the exceptions to the above general rule :

- (a) Loss from speculation business cannot be set-off against income from other business or profession. This loss can be set-off only against the income from another speculation business.
- (b) Loss of specified business (See Sec. 35AD Profits and Gains of Business or Profession) cannot be set-off against income from other business. This loss can be set-off only against income from other specified business.
- (c) Long-term capital loss cannot be set-off against short-term capital gain. This loss can be set-off only against long-term capital gain.

- (d) Loss from the activity of owning and maintaining race horses shall be set-off against income from owning and maintaining race horses only and not against any other income under the head other sources.
- (e) Losses of lottery, crossword puzzles, gambling, card games or betting etc. cannot be set-off against such income or any other income. Further, no loss under any head can be set-off against such incomes.
- (f) Loss from an exempted source of income cannot be set-off against any taxable income.

(2) **Set-off against income under other heads** : If after setting-off a loss under the same head of income there still remains some loss, the remaining loss shall be set-off against his income under any other head. [Sec. 71(1)]

Restriction regarding set off of loss under the head 'Income from House Property' against any other head of income (w.e.f. the Assessment Year 2018-19) [Sec. 71(3A)]

Set-off of loss under the head 'Income from House Property' against any other head of income shall be restricted to ₹ 2 lakh for any assessment year. However, the unabsorbed loss can be carried forward for eight subsequent years for set-off under the head 'Income from House Property'.

However, the following losses cannot be set-off against income under other heads :

- (a) Speculation losses; (aa) Loss from specified business; (b) Loss from the activity of owning and maintaining race horse; (c) Loss under the head 'Capital Gains'; (d) Loss under the head 'Profits and Gains of Business or Profession' cannot be set-off against income under the head 'Salaries'; (e) Any loss is not allowed to be set-off against winning from races, lotteries, etc.

(3) **Loss from business or profession** : Any loss from business (other than speculation business) or profession can be set-off against any other income falling under the same head (including speculation income) as well as under any other head of income except 'Salaries'.

Unabsorbed depreciation is not treated as a loss from business or profession. In the case of unabsorbed depreciation the provisions of Sec. 32(2) are applicable. Hence, unabsorbed depreciation can be set-off against income under the head 'Salaries'.

(4) **Speculation Loss** : Losses in respect of speculation business can be set-off only against profits and gains, if any, of another speculation business, carried on by the assessee. Losses from House property, losses of non-speculation business or profession and losses under the head 'Income from Other Sources' can, however, be set-off against the profits of speculation business. [Sec. 73(1)]

(4A) **Loss of specified business** : Any loss of a specified business can be set-off against profits of any other specified business only. [Sec. 73A(1)]

(5) **Losses from the activity of owning and maintaining race horses** : Losses from the activity of owning and maintaining race horses in any assessment year shall be set-off only against income from owning and maintaining race horses and not against any other income. [Sec. 74A(3)]

(6) **Capital Losses** : (a) **Short-term** : Such losses can be set-off against any other short-term capital gains or long-term capital gains only.

(b) **Long-term** : Long-term capital loss can be set-off against long-term capital gains only.

(7) **Losses of lottery, crossword puzzles, gambling, card games or betting, etc** : These losses cannot be set-off against any income.

(8) **Loss of Association of Persons and Body of Individuals or Firm** : The loss of A.O.P. and B.O.I. or a Firm, which could not be set-off intra headwise and inter headwise as per the provisions explained earlier, cannot be apportioned among the members/partners and the members/partners are not entitled to set-off their share of loss from their personal incomes.

Q.14. Mr. Danny is an employee of a company at Udaipur (population exceeding 25 lakh). He would receive the following during the financial year 2021-22 :

	₹
Salary	9,60,000
Dearness Allowance	2,80,000
Bonus	80,000

Children education allowance ₹ 150 p.m. for one child.

Rent-free house—F.R.V. ₹ 1,50,000.

His annual contribution to Provident Fund is ₹ 96,000.

He has paid Life Insurance Premium of ₹ 12,000.

Donation to Prime Minister's National Relief Fund ₹ 10,000 by cheque.

Compute his income from salary liable to deduction of tax at source and the amount of tax to be deducted.

Sol. Computation of Tax Deductible at Source from Salary

(for the Assessment Year 2022-23)

	₹
Salary Income	9,60,000
Dearness Allowance	2,80,000
Bonus	80,000
Children education allowance excess over ₹ 100 p.m.	600
Rent-free house 15% of Salary (₹ 9,60,000 + 80,000 + 600)	1,56,090
	14,76,690
Less : Standard deduction up to ₹ 50,000	50,000
	Income from Salary 14,26,690

Less : Deduction u/s 80C :

Contribution to P.F. ₹ 96,000

Life Insurance Premium 12,000

1,08,000

Ded. allowed Max. ₹ 1,50,000

1,08,000

Deduction u/s 80G :

100% of the donations of ₹ 10,000 made to <i>P.M.'s National Relief Fund</i>	10,000	1,18,000
Salary Income Liabile to Deduction of Tax at Source		13,08,690
Income tax on ₹ 13,08,690 :		₹
Tax on ₹ 2,50,000		Nil
Tax on ₹ 2,50,000 @ 5%		12,500
Tax on ₹ 5,00,000 @ 20%		1,00,000
Tax on ₹ 3,08,690 @ 30%		92,607
		2,05,107
<i>Add</i> : Surcharge		Nil
		2,05,107
<i>Add</i> : Health and Education Cess @ 4%		8,204
	Tax Deductible at Source ₹	2,13,311

Hence, monthly tax to be deducted at source ₹ 17,776.

Q.15. Discuss the various modes of recovery of tax.

Ans.

Modes of Recovery of Tax

The arrears of tax, interest, penalty, fine or any other sum payable under this Act can be recovered by the following methods :

(1) Recovery by Tax Recovery Officer

(Sec. 222)

When an assessee is in default in making a payment, the Tax Recovery Officer will draw up under his signatures statement (certificate) in the prescribed form and shall proceed to recover the specified amount from each assessee by any one or more of the modes mentioned below :

- (a) attachment and sale of the assessee's movable property;
- (b) attachment and sale of the assessee's immovable property;
- (c) arrest of the assessee and his detention in prison;
- (d) appointing a receiver for the management of the assessee's movable and immovable properties.

(2) Other modes of recovery

(Sec. 226)

- (a) **Attachment of salary** : If an assessee is in receipt of any income under the head 'Salaries' the Assessing Officer or Tax Recovery Officer may ask his employer to deduct from his salary any arrears of tax due from such assessee and pay it to the Central Government.
- (b) **Recovery from debtors** : The Assessing Officer or Tax Recovery Officer may, by notice in writing, require any person from whom money is due or may become due to the assessee or any person who holds money for or on account of the assessee, to pay to the Assessing Officer or T.R.O. so much of the money as is sufficient to pay amount due by the assessee.
- (c) **From a court** : The Assessing Officer or T.R.O. may apply to the court in whose custody there is money belonging to the assessee for payment to him of the entire amount of such money or if it is more than the tax due an amount sufficient to discharge the tax.

(d) **Sale of movable property** : The Assessing Officer or T.R.O. may, if so authorised by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner by general or special order, recover any arrears of tax due from an assessee by distraint and sale of his movable property.

(3) Recovery through State Government (Sec. 227)

If the recovery of tax in any area has been entrusted to State Government, the State Government may direct, with respect to that area, that tax shall be recovered therein with and as an addition to any municipal tax or local rate by the same person and in the same manner as the municipal rate or local rate is recovered.

(4) Recovery of tax in pursuance of an agreement with foreign countries

(Sec. 228A)

Where an agreement is entered into by the Central Government with the government of any foreign country for recovery of income tax under the Indian Income Tax Act and the corresponding law in force in that foreign country and there are any arrears of tax due against any assessee who is in default and who has a property in such a foreign country, the Tax Recovery Officer may forward to the Board a certificate specifying the amount of arrear due to the resident assessee. The Board may then take such action thereon as it may deem appropriate having regard to terms of the agreement with such foreign country. Similarly, the Government of the foreign country may send to the Central Board of Direct Taxes a certificate for the recovery of any tax due to such foreign country from any person having property in India. The Board will then proceed to recover the amount through the Tax Recovery Officer concerned.

(5) Recovery of penalties, fine, interest and other sums (Sec. 229)

Any such sum payable under the provisions of this Act shall be recovered in the same manner as provided for the recovery of arrears of income tax.

(6) Recovery by suit (Sec. 232)

If there is any other law for the time being in force relating to the recovery of debts due to the Government, such law may be applied for the recovery of the sum in arrears.

Q.16. What do you know about Faceless Appeal Scheme 2020. Also discuss its objectives and major features.

Ans. Faceless Appeal Scheme

Central Board of Direct Taxes *vide* Notification No. 76/2020 dated September 25, 2020 has notified the Faceless Appeal Scheme, 2020 under the Income Tax Act, 1961 to provide for e-appeal and for the online hearing and disposal of appeals related to income-tax disputes by the Commissioner (Appeals). This scheme is effective from September 25, 2020 and shall apply to all the pending appeals and any further new appeals filed under the Income Tax Act.

“e-appeal” means the appellate proceedings conducted electronically in ‘e-appeal’ facility through the registered account of the appellant in designated portal.

Objectives of Faceless Appeal Scheme

1. To impart greater efficiency, transparency and accountability.
2. Eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible.

3. Optimizing utilization of the resources through economies of scale and functional specialisation.
4. Introducing in appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more Commissioner (Appeals).

Salient Features of The Scheme

1. Faceless Appeal Centres *i.e.*, National Faceless Appeal Centre and Regional Faceless Appeal Centres has been created. Under each Regional Faceless Appeal Centres, 'Appeal Units' has been created to conduct the appeal proceedings.
2. All the communication between the appeal unit and the appellant or Assessing Officer or any other person shall be through the National Faceless Appeal Centre only and in electronic mode only.
3. Additional evidence shall be filed with the National Faceless Appeal Centre only. The National Faceless Appeal Centre shall forward the additional evidence to the National Faceless Assessment Centre.
4. National Faceless Appeal Centre shall have the power to impose penalty for non-compliance of any notice.
5. National Faceless Appeal Centre is empowered to pass the appeal order.
6. Certain appeals relating to serious frauds, major tax evasion, sensitive and search matters, International tax and Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 matters will, for now, stay outside the purview of this Scheme.

Q.17. Particulars of income of Mr. Amit Kaushik and his family members are as under :

	₹
1. Self Income :	
(a) Rental income from house property	36,000
(b) Income from business	3,02,000
(c) Interest on investments	15,200
2. Wife's Income :	
(a) Rental income from house property gifted by her father	10,000
(b) Interest on debentures gifted by her husband in 2014	7,000
3. Major Son's Income :	
(a) Salary from a company	3,34,000
(b) Rent from house property (The house was gifted by his father in 2009 when he was minor)	24,000
4. Minor Son's Income :	
(a) Salary received for service in a firm	68,000
(b) Interest on fixed deposit in a bank deposited by his father	12,000
5. Minor Daughter's Income :	
(a) Interest on investments made by her mother in daughter's name	4,000
(b) Rent from house property gifted by her grandfather	18,000

Compute separately individual gross total income of the family members keeping in mind clubbing provisions of the Income-tax Act.

Sol. Computation of Gross Total Income of Mr. Amit Kaushik
(for the Assessment Year 2021-22)

	₹	₹
1. <i>Income from House Property :</i>		
Rental income from own house (A.V.)	36,000	
Less : 30% of A.V.	<u>10,800</u>	
	25,200	
Rental income of minor daughter (A.V.)	₹	
[Clubbed with father u/s 64(1A)]	18,000	
Less : 30% of A.V.	<u>5,400</u>	
	12,600	
	<u>37,800</u>	
Less : Exemption up to ₹ 1,500 u/s 10(32)	<u>1,500</u>	
Income from House Property		36,300
2. <i>Income from Business</i>		3,02,000
3. <i>Income from Other Sources :</i>		
(i) Interest on investments (Own)	15,200	
(ii) Int. on debentures in the name of wife		
[Clubbed u/s 64(1)(iv)]	7,000	
(iii) Int. on Bank F.D. in the name of minor son	12,000	
Less : Exemption u/s 10(32)	<u>1,500</u>	
	10,500	
(iv) Int. on the investment made in the name of minor daughter by her mother but income clubbed to her father's income as it is greater than that of her mother	<u>4,000</u>	
Gross Total Income		<u><u>3,75,000</u></u>

Computation of G.T.I. of Mrs. Amit Kaushik
(for the Assessment Year 2021-22)

	₹
Rental income from House Property gifted by her father (A.V.)	10,000
Less : 30% of A.V.	<u>3,000</u>
Gross Total Income	<u><u>7,000</u></u>

Computation of Gross Total Income of Major Son
(for the Assessment Year 2021-22)

	₹	₹
1. <i>Income from Salary :</i>		
Salary from a company	3,34,000	
Less : Standard deduction	<u>50,000</u>	
		2,84,000

2. *Income from House Property :*

Rent being Annual Value	24,000	
Less : 30% of A.V.	<u>7,200</u>	16,800
Gross Total Income		<u>3,00,800</u>

Computation of Gross Total Income of Minor Son
(for the Assessment Year 2021-22)

	₹	₹
Salary from a firm	68,000	
Less : Standard deduction	<u>50,000</u>	18,000
Interest on F.D. with the bank (included in the income of father)		<u>Nil</u>
		<u>18,000</u>

Computation of Gross Total Income of Minor Daughter
(for the Assessment Year 2021-22)

	₹
Interest on investments made in her name by her mother included in father's income	Nil
Income from House Property (gifted by her grandfather included in the G.T.I. of the father)	<u>Nil</u>
Gross Total Income	<u>Nil</u>

Notes : 1. Wife received house property from her father. The income of it shall be the income of the wife. However, income from debentures received from husband shall be included in the income of the husband.

2. Major son received house property from his father. The income of it shall be included in the income of son.

3. Salary received by minor son shall be the income of minor son.

4. Income of minor daughter (from investment and house property) shall be included in her father's income. However, he will be entitled to exemption up to ₹ 1,500.

Important Note : When the income of spouse, minor child etc. is included in the income of the assessee, it is included in the same head to which it belongs.

Q.18. Mr. Shivansh Chaudhary submits the following information relevant for the Assessment Year 2021-22 :

Income from units of M.F.	20,000
Profits of Business	12,000
Short-term Capital Gains	25,000
Long-term Capital Gains	7,500
Income from owning and maintaining race horses	25,000
Income from Crossword puzzles	28,000

The following items have been brought forward :

Brought forward Business loss (from the Assessment Year 2019-20)	17,000
Unabsorbed depreciation (from the Assessment Year 2019-20)	8,000

Long-term Capital Loss in respect of the Assessment Year 2017-18	42,000
Brought forward loss from the activity of owning and maintaining race horses of the Assessment Year 2019-20	35,000
Speculation losses of the Assessment Year 2018-19	20,000

Find out the gross total income of Mr. Shivansh Chaudhary for the Assessment Year 2021-22.

Sol. Computation of Gross Total Income
(for the Assessment Year 2021-22)

	₹	₹
Profit of Business	12,000	
Less : B/fd. Business Loss from the Assessment Year 2019-20	<u>- 17,000</u>	
Loss c/fd. to next year	<u>- 5,000</u>	Nil
Capital Gains :		
Short-term Capital Gains		25,000
Long-term Capital Gains	7,500	
Less : B/fd Long-term Capital Loss	<u>- 42,000</u>	
L.T.C.L. c/fd.	<u>- 34,500</u>	
Income from Other Sources :		
Income from owning and maintaining race horses	25,000	
Less : Loss of owning and maintaining race horses for the Assessment Year 2019-20 b/fd.	<u>- 35,000</u>	
Loss to be c/fd. to next year (It can be c/fd. up to the Assessment Year 2023-24)	<u>- 10,000</u>	Nil
Income from Crossword Puzzles		28,000
Income from units of M.F.		20,000
		<u>73,000</u>
Less : Unabsorbed depreciation against STCG		8,000
		<u>65,000</u>
	Gross Total Income	65,000

Note : As there is no income from any speculation business this year, the b/fd loss of speculation business cannot be set-off. It can be carried forward up to the Assessment Year 2022-23.

Q.19. From the following information determine the income tax payable by employees for the Assessment Year 2021-22 :

Employee	K	L	M	N
	₹	₹	₹	₹
Net Salary	2,10,000	6,65,000	10,00,000	20,50,000
Contribution to R.P.F.	45,000	50,000	1,40,000	1,60,000

(A) The employees furnished their PAN to the employer.

(B) The employees did not furnish their PAN to the employer.

Sol.

Computation of the Total Income*(for the Assessment Year 2021-22)*

	K	L	M	N
	₹	₹	₹	₹
Net Salary	2,10,000	6,65,000	10,00,000	20,50,000
Less : Deduction u/s 80C regarding contribution to RPF—Max. deduction allowed ₹ 1,50,000	(45,000)	(50,000)	(1,40,000)	(1,50,000)
Total Income	1,65,000	6,15,000	8,60,000	19,00,000

Computation of Tax Payable*(for the Assessment Year 2021-22)*

(A) In the case when employees furnished their PAN to the employer :

	K	L	M	N
	₹	₹	₹	₹
Tax on ₹ 2,50,000	Nil	Nil	Nil	Nil
Tax on next ₹ 2,50,000 @ 5%	—	12,500	12,500	12,500
Tax on next ₹ 5,00,000 @ 20%	—	23,000	72,000	1,00,000
Tax on balance Income @ 30%	—	—	—	2,70,000
	—	35,500	84,500	3,82,500
Add : Health & Education Cess @ 4%	—	1,420	3,380	15,300
Tax Payable	—	36,920	87,880	3,97,800

(B) In the case when employees did not furnish their PAN to the employer :

The tax shall be deducted at the higher of the following rates :

(i) at the rate specified in the relevant provisions of this Act; or

(ii) at the rate or rates in force; or

(iii) at the rate of twenty percent.

In the given cases, tax shall be deducted :

	K	L	M	N
	₹	₹	₹	₹
	—	73,000	1,22,000	3,97,900

Note : In the case of L and M—tax has been computed as under :

In the case of L—Total income ₹ 6,15,000 less exempt amount ₹ 2,50,000 = ₹ 3,65,000

Tax on ₹ 3,65,000 @ 20% = ₹ 73,000.

In the case of M—Total income ₹ 8,60,000 less exempt amount ₹ 2,50,000 = ₹ 6,10,000

Tax on ₹ 6,10,000 @ 20% = ₹ 1,22,000.

In the case of N—Total income ₹ 19,00,000 less exempt amount ₹ 2,50,000 = ₹ 16,50,000

Tax on ₹ 16,50,000 @ 20% = ₹ 3,30,000 Or

at the prescribed rate, tax will be ₹ 3,97,800 (as already calculated) so, the higher amount of tax shall be deducted i.e., ₹ 3,97,800.

Solution is based on Example 1 given in Circular No. 20/2015 [F.No. 275/192/2015-IT(B)], Dated 2.12.2015.

Q.20. Elaborate the tax planning in relation to income from house property.**Ans. Tax Planning in Relation to Income From House Property**

1. A house property may be purchased or constructed by taking a loan. The interest on the loan is deductible fully in computing income from house property. This will reduce his taxable income.
2. If a person wants to purchase or construct a house or two houses for his own residence he should borrow the funds for this purpose. The interest up to ₹2,00,000 is deductible in computing his income. This loss can be set-off against either the income from other house property in income under other heads of income.
However, (*w.e.f.* the Assessment Year 2018-19, set-off loss from house property against any other head or income shall be restricted to two lakh rupees for any assessment year.
3. If the assessee has funds to purchase or construct the house, he should invest the funds in tax-free securities.
4. If the assessee has borrowed the funds for purchase or construction of the house and interest is payable outside India tax on interest should be deducted at source, otherwise, the deduction for interest will not be allowed in computing the income.
5. If an assessee has the option either to live in own house or live in a rented house and rented his own house, he should live in his own house because the annual value of self-occupied house is taken as nil.
6. If an assessee is using more than two houses for his residential purposes, he should transfer one house to his daughter-in-law without consideration. Now the annual value of three houses will be taken as nil.
7. If the house has been let-out and the rent includes the value of benefits provided by the landlord to the tenant, in an agreement deed it should be mentioned clearly that how much amount is for facilities (Electricity, water, lift, etc.) otherwise such expenses will not be deducted in computing the gross annual value of the house.
8. If there is unrealised rent, the assessee should try to fulfil the conditions of Rule 4, so that he may claim deduction regarding unrealised rent.
9. The deduction regarding municipal tax (including service tax) is allowed on actual payment. Hence, as far as possible the tax should be paid before the end of the financial year.
10. If an assessee has let-out more than one house, he should transfer one or more houses to the members of his family who are having the least income. However, he should not transfer the house to his spouse, daughter-in-law or a minor child, otherwise, the clubbing provisions will apply.
11. If deductible expenses are more than the annual value, there will be loss from house property. This loss can be set-off against income from other house property and/or income under other head of incomes. If the full amount of loss cannot be set-off the balance loss can be carried forward and set-off against the income from house property in the following eight assessment years.
12. If an individual takes loan for residential house property, interest on loan upto ₹ 1,50,000 shall be allowed as deduction u/s 80EEA (*w.e.f.* Assessment Year 2020-21).

Q.21. From the following information compute penalty leviable on under-reported income u/s 270A for the Assessment Year 2021-22: ₹

1. Income declared in return of income u/s 139(1)	10 lakh
2. Income determined by A.O. u/s 143(1) (a)	12 lakh
3. Income assessed by A.O. u/s 143(3)	15 lakh
4. Income reassessed by A.O. u/s 147	20 lakh

Sol. Computation of Penalty Leviable u/s 270A
(for the Assessment Year 2021-22)

		₹
1. Total income assessed u/s 143(3)		15 lakh
Less : Total income determined u/s 143(1)(a)		<u>12 lakh</u>
Tax on ₹ 15 lakh :	₹	
Tax on ₹ 2,50,000	Nil	
Tax on ₹ 2,50,000 @ 5%	12,500	
Tax on ₹ 5,00,000 @ 20%	1,00,000	
Tax on ₹ 5,00,000 @ 30%	<u>1,50,000</u>	
	2,62,500	
Add : Health & Education Cess @ 4%	<u>10,500</u>	2,73,000
Less : Tax on ₹ 12,00,000	1,72,000	
Add : Health & Education Cess @ 4%	<u>6,900</u>	1,79,400
Tax on under-reported Income/Tax Payable		<u>93,600</u>
Penalty Leviable @ 50% of Tax Payable		<u>46,800</u>
2. Re-assessment u/s 147 :		
Total income re-assessed	20 lakh	
Less : Total income assessed u/s 143(3)	<u>15 lakh</u>	
under-reported income	<u>5,00,000</u>	
Tax on ₹ 20 lakh	4,12,500	
Less : Tax on ₹ 15 lakh	<u>2,62,500</u>	
	1,50,000	
Add : Health & Education Cess @ 4%	<u>6,000</u>	
Tax on under-reported income/Tax payable		<u>1,56,000</u>
Penalty Leviable @ 50% of Tax Payable		<u>78,000</u>

Multiple Choice Questions

Q.1. is not only illegal but it is also immoral, anti-social and anti-national practice.

- | | |
|-------------------|-------------------|
| (a) Tax avoidance | (b) Tax evasion |
| (c) Both of these | (d) None of these |

Ans. (b) Tax evasion

Q.2. is a method of reducing tax incidence by availing of certain loopholes in the law.

- (a) Tax planning (b) Tax evasion
(c) Tax avoidance (d) None of these

Ans. (c) Tax avoidance

Q.3. HRA is

- (a) Fully taxable (b) Partly taxable
(c) Fully exempted (d) None of these

Ans. (b) Partly taxable

Q.4. If the assessee is living in own house HRA is

- (a) Fully taxable (b) Partly taxable
(c) Fully exempted (d) None of these

Ans. (a) Fully taxable

Q.5. Children education allowance is exempt up to per month per child for two children.

- (a) ₹ 100 (b) ₹ 150
(c) ₹ 200 (d) ₹ 250

Ans. (a) ₹ 100

Q.6. Children hostel allowance is exempt up to per month per child for :

- (a) 2 child (b) 3 child
(c) 4 child (d) 7 child

Ans. (a) 2 child

Q.7. Loss under the head of house property :

- (a) can be carry forwarded for 8 years
(b) can't be carried forward
(c) can be carry forwarded for 4 years
(d) may be carry forwarded

Ans. (a) can be carry forwarded for 8 years

Q.8. Speculation loss can be carried forward for the maximum of :

- (a) 8 assessment years
(b) 4 assessment years
(c) 10 assessment years
(d) unlimited number of years

Ans. (b) 4 assessment years

Q.9. Loss from house property can be carried forward and set-off in the subsequent 8 Assessment years :

- (a) Only if return of loss is filed within due date
(b) Even if return of loss is filed after due date
(c) It does not matter whether or not return is filed
(d) Carry forward of loss from house property is not allowed at all

Ans. (b) Even if return of loss is filed after due date

Q.10. For Carry Forward of loss under various heads the assessee shall file a return of loss under section 139(3) of Income Tax Act, 1961 within the prescribed time limit except :

- (a) Loss under head capital gain
- (b) Loss under head profits and gains from business or profession
- (c) Loss under head house property
- (d) All the above

Ans. (c) Loss under head house property

Q.11. Loss from a speculation business can be set-off from :

- (a) Any head of income
- (b) Profits and gains from any business
- (c) Profits and gains from any business other than speculation business
- (d) Income of speculation business

Ans. (d) Income of speculation business

Q.12. Intra head set-off is done under :

- (a) Section 70
- (b) Section 71
- (c) Section 72
- (d) Section 73

Ans. (a) Section 70

Q.13. Which of the following is correct ?

- (a) LTCL can be set-off from LTCG only
- (b) LTCL can be set-off from STCG only
- (c) Loss of business can be set-off from salary income
- (d) Loss of speculation business can be set-off from income from normal business

Ans. (a) LTCL can be set-off from LTCG only

Q.14. Inter head set-off can be availed under Section 71 before availing the intra head set-off under Section 70.

- (a) True
- (b) False
- (c) No sequence is given in Income Tax Act
- (d) None of the above

Ans. (b) False

Q.15. Loss on account of owing & maintaining the race horses can be set-off from :

- (a) any business income
- (b) any income under the head other sources
- (c) income from horse races
- (d) income of owing and maintaining of race horses

Ans. (d) income of owing and maintaining of race horses

Q.16. Short-term capital loss can be set-off from :

- (a) short-term capital gain only
- (b) long-term capital gain only
- (c) short-term capital gain or long-term capital gain
- (d) not from income of capital gains but from other source of income

Ans. (c) short-term capital gain or long-term capital gain

Q.17. Loss under the head capital gains can :

- (a) be set-off from any other head of income in the same year
- (b) be carried forward only
- (c) neither be set-off nor carried forward
- (d) None of the above

Ans. (d) None of the above

Q.18. During the previous year if assessee has incurred loss from his business amounting to ₹ 1,10,000 whereas his income from house property in ₹ 1,10,000. The assessee can :

- (a) carry forward business loss
- (b) set-off business loss of ₹ 1,10,000 from house property income and pay no tax
- (c) at his option do any of (a) or (b)
- (d) will have to pay tax on ₹ 1,10,000 ignoring the set off of loss

Ans. (b) set-off business loss of ₹ 1,10,000 from house property income and pay no tax

Q.19. Loss under the head business and profession can be set-off from :

- (a) income under any other head
- (b) income from lottery
- (c) income under any other head except salary income and lottery income
- (d) income under any other head except house property

Ans. (c) income under any other head except salary income and lottery income

Q.20. The loss is allowed to be carried forward only when an assessee has furnished :

- (a) return of loss at any time as per his wish
- (b) return of loss on or before the due date mentioned u/s 139
- (c) not furnished the return of loss
- (d) None of the above

Ans. (b) return of loss on or before the due date mentioned u/s 139

Q.21. Loss on account of owning & maintaining the race horse can be carried forward :

- (a) for 8 assessment years
- (b) for 4 assessment years
- (c) indefinitely
- (d) nothing is mentioned in law

Ans. (a) for 8 assessment years

Q.22. Brought forward loss of business and profession :

- (a) can be set-off in any of the 8 succeeding years
- (b) must be set-off in the immediate succeeding year if income is available & balance in the immediately next succeeding year and so on for 8 years
- (c) cannot be set-off in the current year
- (d) None of the above

Ans. (b) must be set-off in the immediate succeeding year if income is available & balance in the immediately next succeeding year and so on for 8 years.

Q.23. Loss of specified business under section 35 AD can be carried forward :

- (a) for 8 assessment years
- (b) for 4 assessment years
- (c) indefinite period of time
- (d) nothing is mentioned in law

Ans. (c) indefinite period of time

Q.24. Losses from business other than speculative, owning and maintaining race horses and specified business under section 35 AD can be carried forward for :

- (a) next 8 assessment year
- (b) next 4 assessment year
- (c) indefinite period
- (d) cannot be carried forward

Ans. (a) next 8 assessment year

Q.25. Losses from speculative business, losses of owning and maintaining race horses and losses of specified business under section 35 AD can be carried forward and set-off from income :

- (a) of any business
- (b) any type of capital gain
- (c) any source or any head except income from salary
- (d) only from respective nature of income

Ans. (d) only from respective nature of income

Q.26. Loss from lottery, gambling and card games can be carried forward for :

- (a) next 8 assessment year
- (b) next 4 assessment year
- (c) indefinite period
- (d) Cannot be carried forward

Ans. (d) Cannot be carried forward

Q.27. Compute the taxable income of Mr. J. If his Income from salary is ₹ 4,00,000 and Loss from self-occupied property ₹ 2,70,000.

- (a) ₹ 4,00,000
- (b) ₹ 1,30,000
- (c) ₹ 3,65,000
- (d) ₹ 2,00,000

Ans. (d) ₹ 2,00,000



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